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HISTORY OF THE BANK OF ENGLAND

And its Financial Services to the State

Second edition, revised

BY

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WITH AN INTRODUCTION BY

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INTRODUCTION

BY

H. S. Foxwell.

The work of Professor Philippovich here translated is a recognized economic classic. It owes this position to the importance of its subject and the thoroughness and accuracy with which the distinguished author has handled it. The position of the Bank of England is so exceptional that its history must always be of peculiar interest; and this more especially in so far as concerns its relations to public finance. For this Bank was, above all others, perhaps, in its origin and development, emphatically the servant of the State. Arising out of a State loan, it was cradled in a Ways and Means Act dealing with the tonnage duties imposed to provide interest on the loan; and in early days was nicknamed the "Tunnage Bank."

At the outset the Bank of England had no other statutory relations to the State; in fact, special provision was made to limit its services to those authorized by Parliament. Even its banking monopoly was not conferred by the original charter. Starting without a monopoly, it obtained its privileged position by its unfailing loyalty to the Government; just as the Bank of Scotland, which started with a monopoly, lost it in 1727 by its suspected affection for the interest of the Pretender. Thus the different attitude toward the State of the two contemporary banks, carrying with it differences of privilege, determined the difference in the national systems of banking in England

and Scotland, a difference which reached its extreme about a century ago. The nineteenth century has seen the struggle between these two types of banking end in the complete victory of the Scottish type. The issue is still a live one in the United States; but in the United Kingdom it may now be said that, for good or ill, the large branch bank has completely ousted the small local bank. In all probability this result would have come about at least a century earlier but for the close connection between the Bank of England and the State.

But though the Bank of England was at its origin rather an incident of State finance than the foundation of a national banking system, its services to the State were very narrowly restricted by statute. It is curious to note that those exchequer functions which it afterwards undertook, and whose gradual assumption it is the principal object of this book to trace, are not even referred to in the original act and charter. The fact is that the Bank of England, like most really English institutions, was case-made; it owed its form and functions not to systematic planning, but to attempts to meet emergencies as they from time to time arose. Thus the "running cash note," which afterwards became the most effective banking instrument of the English bank, was an evasion, even if not (as often alleged) a positive infraction of its charter. The charter only contemplated an issue of "sealed bills," strictly limited in amount to the capital subscribed. If this was so with its banking methods, it was equally the case with its relations to the Exchequer.

The connection of the Bank with the public revenue, as Professor Philippovich clearly shows, grew up informally

long before it received legislative recognition. It can not be said, however, that the matter was altogether overlooked at the foundation of the Bank. As usually happens in times of national crisis, when the public mind is deeply stirred, the air was full of constructive schemes, and almost every conceivable form of public bank had active and able advocates. "Banks swarm everywhere," writes L'Hermitage, referring to the numerous projects in 1695. Among the various types then proposed there are of special interest: The State Bank, owned by the State; the National Branch bank of the type of the present Banque de France; and the Bank of London, or City Bank, under the management of the Corporation. The first and last of these were at the time inadmissible. The credit of neither State nor City of London would have commanded general confidence. It is to be observed that contemporary writers always spoke of the Bank of England as resting upon Parliamentary, not State, security; that is, upon an income definitely secured by the Parliament upon the yield of particular taxes. The Crown might have had more to say in regard to a State bank. Moreover, the authorities of a State bank might have sacrificed both the national trade and the stability of the Bank to exigencies of State. A board of merchants representing private proprietors was less likely to make this mistake. No doubt a city bank, resting like those of Amsterdam and Hamburg on the guaranty of the Corporation, might have been trusted to promote commercial interests. But the credit of the City of London in 1694 was at its lowest ebb. The Chamber of London, classed in 1650 with the Bank of Amsterdam as

an example of the highest kind of security, had recently "fail'd to the *Ruine* of many thousands of all Ages and Ranks." They had been obliged to apply to Parliament in 1693 for "means of satisfying the Debts due to the Orphans by their Orphans Fund," which was then some £600,000 in default. A bill was prepared to provide certain local dues for this purpose, and passed into law June, 1694. The extremity to which the city was reduced may be judged from the fact that they paid Speaker Trevor a bribe of 1,000 guineas to secure the passing of this bill, no less a man than Sir John Houblon, afterwards first governor of the Bank of England, being a witness to the transaction. The bribe was discovered later, and the Speaker expelled from the House. The whole business left the Corporation gravely discredited.[a]

It is not so clear why the third type of bank did not receive more consideration. This, whether under State or private management, was to be a National, rather than a London bank, and to have branches in every important town. It was argued in favor of this plan that it would give a much more general stimulus to industry and trade; that it would tend to prevent their undue concentration in the Metropolis (Bristol was greatly concerned on this point); and that it would furnish invaluable facilities for remittance, practically doing away with internal exchange rates, then very burdensome. Numerous proposals had been made for a bank of this type, most of them anonymous. Those by Daniel Beeckman, by John Cary of Bris-

[a] "The poor Orphans sufferings are still fresh in Memory," says the author of *Angliæ Tutamen*, in 1695.

tol, the friend of Locke, and by Daniel De Foe were distinctly able and well worked out. Most of the projectors laid stress upon the great services such a national bank might render to the Exchequer, in the collection of the revenue, and by preventing the loss sustained by the State through idle balances. Cary was more concerned for the effect on trade. "Banks, as I humbly conceive," he writes, "ought chiefly to be calculated for the use of Trade, and modeled so as may best content the Traders."

But it was otherwise decided. At this time the purely financial interest dominated. The trading and country interest was to a large extent sacrificed, and administrative facilities were not considered. It was nearly 150 years before the country had an adequate system of banks, such as might have been founded in 1694, if one or other of these proposals for national banks had been accepted. The administrative economies possible in the system of public receipts and payments were postponed to the more urgent problem of obtaining money to pay. As our author shows, the engrafting of Exchequer business on the Bank grew up gradually, almost by accident; possibilities of this sort were not taken into account in deciding on the form to be given to the Bank.

It must be admitted that the State did pretty well for itself. It derived substantial advantage from the Bank, not only in the great emergencies of William's reign, but from time to time afterwards, and notably on the occasion of Charter renewals; this too, without depriving the Bank of its private character, and its

responsibility for losses. This, again, is characteristic of English methods. The State prefers to exploit private enterprise, rather than to engage in enterprise itself. "Heads I win, tails you lose," is its attitude toward private business. Considering how small is the chance that the State will ever make any profit on its own account, the attitude is not unwise.

The question of Exchequer methods, however, deserved attention; and its importance had already been realized by the English people. Whenever a great central bank acts as an Exchequer, even if its range is only metropolitan, there must be a great economy in the use of money. This was carefully pointed out by many writers of the time. They could remember the gross abuses of the time of Charles II, when the receivers lent balances to the goldsmiths long overdue to creditors of the State, while the unhappy creditors were forced to go to these very goldsmiths to borrow back their own money at usurious rates. Down to a much later period, large fortunes were made by revenue officials at the expense of the State. Occasionally we come across complaints which have a more modern ring. The large balances in the hands of receivers of the revenue are alleged to have caused a scarcity of money in the market. But as a rule the receivers banked or lent their money; it was their obvious interest to do so. The money was therefore not taken off the market, as is the case when public moneys are held by an independent, non-banking, treasury. Still, if there had been time for fuller consideration, the question of the relation of the Bank to the Treasury might well have received more thought. The Bank

was not only willing, but anxious, to undertake Treasury business.[a] If their suggestions had been acceptable to Parliament, great advantages of economy and accountability might have been secured from the very foundation of the Bank, which, as a matter of fact, were only completely realized by an evolution extending over more than a century and a half.

In 1806, when the constitution of the Bank of France was under discussion, this evolution was so far complete that the greater proportion of revenue payments were made through the Bank of England. It is interesting, therefore, to consider the grounds on which Napoleon, with the English experience before him, concluded that the French Bank should not undertake Treasury business. There is a graphic account of the discussions on this question between Mollien and the Emperor in Mollien's *Mémoires* (especially Vol. I, pp. 292–315, and Vol. II, pp. 50, etc.). It is pretty clear that the Emperor allowed himself to be persuaded by Mollien against his own convictions. The Emperor wished to see the Bank of France undertaking the custody and remittance of the revenues, and provided with branch offices throughout the country. Mollien's attitude was critical and ultra-cautious. He seems to have feared that the Emperor would have made the Bank a mere engine of State finance. Previous banks of France had been wrecked by the demands of the State,

[a] See *An Essay upon the National Credit of England, 1706:* "It has been said that they would give a Million of Money for this Privilege, which has never yet been granted, but expressly prohibited by the Parliament, (excepting for a small time and in an extraordinary case), though some think there are means found out, in a great measure, to evade that prohibition" (p. 11). The surmise was not far wrong.

and the Bank of England itself had only narrowly escaped disaster from the same cause more than once in its career. Logically, of course, there was no necessary connection between an Exchequer agency and advances to the State; but it would be hard to say that in practice the former might not be made a pretext for insisting upon the latter.

Mollien's account of the conflict of opinion thus arising is of almost dramatic interest. He says that the Emperor had often conversed with him about the Bank he had just established "*sous le titre pompeux de Banque de France.*" The Emperor had the highest expectations of this Bank. Mollien was as cold on the subject as the most severe doctrinaire of the "Guillaumin school" could be. The Emperor asks him if he still maintains his spite against the Bank. Mollien replies by tendering him a carefully prepared paper setting forth his views. Much of this deals with points in the charter, to which he raises sound objections. The French Bank ought to have paid for its monopoly, as the English Bank did. Instead, Government was a shareholder in it. If at the start the Government did the Bank some service in subscribing these 5,000 shares, it would now be doing it a greater service if it would free it from the tutelage of such a shareholder, who, sooner or later, might become suspect. It was because the English Government was scrupulously careful to fulfill all the obligations with which private debtors had to comply that it was able, without endangering the Bank, to obtain assistance from it. The English Bank made payments and discounts for the Government just as for private firms who had opened accounts with it. The English Bank also collected cer-

tain portions of the public revenue, and especially those pledged for the service of the debt; but it was rather as "*Grand syndic des créanciers de l'État*" than as Government agent that it made these collections. The State no longer had the disposal of these revenues, because they had been made over to its creditors; and it was to emphasize the unqualified character of this assignment that the duty of collecting directly from the public receivers the corresponding amounts was imposed on the Bank. Moreover, owing to the fact that the bulk of the English debt was in the hands of large holders, who kept accounts with the Bank, the payment of interest was a very simple matter. It would be otherwise in France, where the average holding in 1806 was only 450 francs.

Mollien goes on to urge that the new French Bank can not be usefully compared with the English Bank, resting as the latter did upon a century of success. England, he says, is perhaps the only country where the creations of credit enjoy so wide a currency that artificial money itself does not degenerate into paper money. He thought that the real guarantee of the English paper was neither the shareholder's capital nor the securities held by the Bank, but the immense mass of goods stored in the country. Napoleon here interposes his own explanation. He sums up the matter in an admirable phrase, worthy of his genius, which exactly hits the mark: "People have sense enough to understand that bank notes are not paper money." These half dozen words exactly express the position maintained four years later by the Bank of England against the Bullion Committee, and form the best answer to the innumerable schemes for Government

Banks of Issue so constantly put forward. Government paper is forced out in payment of the limitless expenses of the State. Bank paper, whether bank notes, as in those days, or checks to-day, is issued against, and more or less limited by, sound and well-secured commercial credit. Bank paper is normally convertible; State paper always tends toward inconvertibility. It was a sound instinct that led England in 1694 and France in 1800 to make their public banks commercial companies instead of departments of State.

To return to the question with which we are here mainly concerned, it would appear that the Bank of France in 1806, like the English Bank a century before, was not unwilling, while retaining its independence, to undertake a large part of the Treasury business. It is not quite certain how far the governor, Crétet, represents the views of the proprietors, because in 1806, for the first time, the governor of the Bank was appointed by the Emperor, and Crétet therefore presided as Napoleon's nominee. But in the discourse which Crétet made to the general assembly of the Bank Direction on the 13th of May, 1806, we find him a pronounced advocate of closer relations with the Treasury. He expresses the hope that the Treasury may be willing to concentrate in the hands of the Bank revenue services now distributed amongst so many intermediaries, estimating the economies which would result from such a centralization at from 3,000,000 to 5,000,000 francs per annum. He even congratulates the Bank on having secured a State lottery agency, promising little profit, because it may lead to more important connections. This, of course, was pre-

cisely what Mollien feared. So anxious was he to prevent any advance in this direction that, against the advice of the responsible minister, Marbois, we find him supporting a proposal for constituting the receivers-general into a bank of their own. This bank was to handle the public moneys and to make advances to the Emperor on the revenue. The proposal seems to have been adopted. The circulation of short Treasury paper, says Mollien later, is intrusted to the receivers-general. For the time, therefore, Mollien had his way.

It is doubtful whether Napoleon was really convinced by Mollien's arguments, but he had a high esteem for him and may have thought that there were grounds for caution. After listening to Mollien, he sat silent for a few minutes and then observed: "The world is old; we should profit by its experience. It teaches us that ancient practice is often worth more than new theories." In one way or another, Napoleon is brought to say, in the end, that "the one thing that seemed clear to him was that there must be no alliance between the business of the Treasury and that of the Bank." But if he thus adopts Mollien's policy, it must of course be for reasons of his own. "Amongst many good reasons, one had decided him," he tells Mollien. "A simple movement of public moneys often carried with it a State secret. He did not wish to increase the number of his confidants in matters of this kind." This is a reason that would appeal to Napoleon; needless to say, it was not influential with Mollien; so far as one can trace, he does not even mention it. Mollien was really afraid that relations with the Treasury would compromise the stability of the Bank. This had often been the case in the

past; no one was in a better position than Mollien to judge of the probability that history might repeat itself in the France of his day. Yet Napoleon's ideas were in the abstract sound enough, and the later history of the Bank of France has justified him. The Bank now has, as he desired, branches in every department, in fact in every important town; and the Treasury makes large use of its admirable organization for the service of the revenue. The Bank of France, in fact, keeps the Government account.

The classical case of the Second Bank of the United States, where a public bank, actually discharging these exchequer functions, was in 1834 deprived of them, presents a still stronger contrast to the history of the Bank of England. It need not be more than mentioned here, as the circumstances are so familiar, and have been so exhaustively chronicled. It is possible to insist too much on these international parallels and contrasts. No two countries can be strictly compared in a matter of this complex character; each case must be carefully considered with reference to all the pertinent political and economic conditions. Perhaps the analogy is closer between the English and French banks; but even here it would not do to attempt to draw general conclusions from the divergent policies adopted. The chief use and justification of such comparisons is their tendency to stimulate further inquiry.

As far as the Bank of England is concerned, there is little to be added to the very complete account of the history of its relations to the State given by Professor Philippovich. That account is brought down to the year 1885. The only changes requiring note since that date are those

effected by the 55 & 56 Victoria, C. 48, usually known as the Bank Act of 1892. This act is printed in an Appendix to this volume. It made a new adjustment of the payments due to the Banks of England and Ireland for the management of the debt, in which was now included the local loans stock (municipal) and the guaranteed land stock (Ireland). It was a natural time for a reconsideration of the question. The great conversion of the national debt had been successfully carried through by Mr. (afterwards Viscount) Goschen in 1888 and 1889. Both banks had given invaluable assistance in the operations. Sir E. W. Hamilton, in the official account of the conversion, writes that "the labour which the attainment of such results imposed on the Banks of England and Ireland was, as can readily be imagined, prodigious; and nothing short of perfect organization and untiring zeal could have enabled those establishments to grapple with it." To give some idea of the magnitude of the necessary operations, he mentions a number of interesting particulars. From these we learn that the total number of accounts of holdings inscribed in the books of the Bank of England was 169,235, "which varied in amount from £5,760,000 to the curiously small sum of 1 penny." Three hundred and eighty-seven millions odd of Consols and Reduced Threes were converted by the Bank of England. The Bank staff had to be largely increased, and during some weeks 100 men worked until 11 p. m., and 50 throughout the night. Difficulties of identification and verification of agency were specially great. "In spite of the immensity and the intricacy of the work, no mistakes were committed; no delays occurred; scarcely a complaint against the banks was preferred."

The remuneration received by the two banks was £101,541 15s. 11d.—£98,248 2d. to the Bank of England, £3,293 15s. 9d. to the Bank of Ireland; a small part of the total expenses of the conversion, estimated at £1,294,142 16s. 7d. This expense, together with the cost of an additional quarterly dividend, due to the change from half yearly to quarterly payment, was almost wholly defrayed out of the surplus revenue for the year 1888–89. The work in connection with the redemption of unconverted stock was much heavier, in proportion to the amount handled, than the work of conversion itself. For this the Bank of England received £14,011 11s. 11d. and the Bank of Ireland £500. Thus the Bank of England received about £112,260 for its services in the double operation. The payment was undoubtedly well earned.

The national debt had thus changed its form, and the dividend upon the whole of it was now paid quarterly instead of at alternate half-yearly periods on the two portions, as before. Moreover, the dividend upon the debts of the State to each Bank (£11,015,100 and £2,630,769 4s. 8d., respectively) was also in future to be subject to the terms of the Conversion Act. These changes made it fitting to reconsider the pecuniary arrangements between the Government and the Bank for the service of the debt. These arrangements had been revised by Mr. Gladstone in 1861, when the payments to be made by the State were reduced by some £50,000 a year. The terms of the existing arrangement will be found in the printed act of 1892. They are not subject to revision until March, 1912. They involve a further saving to the State of £45,700 a year.

Reference will be noticed in the act of 1892 to a possible supplementary charter. This charter was applied for in due course, and bears date August 19, 1896. It deals exclusively with what may be called the internal affairs of the Bank; and for this reason, perhaps, does not appear to have been published. It seems to have been granted in reply to a petition from the Bank, stating that much inconvenience was caused in various respects by certain provisions of the old charter. The new provisions substituted give the Bank greater freedom in matters relating to its internal government. The only one which seems to concern the public is the first, dealing with the re-election of directors. By the first of the acts which conferred the bank monopoly, the 8 & 9 Wm. III, c. 20 (1697), it was enacted (sec. 52) "that in all future elections of directors there shall not be chosen above two-thirds of those who were directors the preceding year." This provision does not seem to give adequate guaranty of due experience or continuity of policy in the bank direction. The Bank petitioned against the clause March 26, 1697, but it was adopted by the House in spite of their protest. There was at that time a widespread fear lest the power which their position gave to the directors might result in favoritism or trade monopoly, and this may have influenced the decision of the House. No further statutory change appears to have been made until the passing of the act (*35 & 36 Vict., c. 34; July 18, 1872*) *An act to amend the law relating to the election of directors of the Bank of England.* This provides that "section 52 of the act, 8 & 9, Wm. III, c. 20 (which section relates to elections of directors of the

Bank of England) shall have effect as if seven-eighths had been therein mentioned instead of two-thirds." By the Bank Act of 1892 it was provided that the act of 1872 (with other acts scheduled) should be repealed as from the date of the supplemental charter, if granted and accepted. Accordingly the rule now in force is that laid down in the first clause of the supplemental charter. It reads, "If a byelaw made by a General Court of the Bank of England so provides, such proportion as is fixed by that byelaw of the existing directors of the Bank of England shall not be eligible for re-election at the then next annual election of directors." What the actual effect of this curiously worded clause will be it would be idle to speculate; it seems to leave the matter wholly at the discretion of the Bank court. The question has only an indirect relation to the main subject of this work; but as the charter is mentioned in the act of 1892, it was thought that these brief explanations might be of interest.

H. S. FOXWELL.

JANUARY 9, 1911.

THE BANK OF ENGLAND AND ITS FINANCIAL SERVICES TO THE STATE

BY

EUGEN VON PHILIPPOVICH

PREFACE TO THE FIRST EDITION.

A work which undertook to provide a complete and systematic description of the history of the Bank of England and its place in the economic life of the English nation would certainly deserve a most favorable reception. We should derive from it a deep insight into English economic history, and should be able also to follow out in one preeminently important case the connection between banking and all other departments of economic life. The Bank of England is the oldest of existing European banks. It is the only bank which for nearly two hundred years has enjoyed an undisputed reputation and a predominant authority within its somewhat restricted field. The evolution of credit and exchange in the economic organization of England are unintelligible apart from the bank and its monopolistic position, and therefore the influence exercised by credit and exchange upon the general economic development is part and parcel of the history of the bank. No less important in the field of public finance were the developing relations between the bank and the State. From its establishment onward its interests and the interests of the State have been closely intertwined. Here especially we notice a peculiarity in the relation between the Bank of England and the English economic organism. Legally the bank was free and independent of the Government, but by undertaking public functions in the field of exchange it gradually became an organ of State finance.

Various continental States have imitated this relationship. We see a tendency to generalize the principle of using banks to make and receive payments for the States. It is certain that the various advantages which this system offers as compared with the system of State treasuries entitle it to universal application. Hence this side especially of the history of the Bank of England is of considerable importance.

It is for this reason that from amongst the manifold phenomena whose investigation is suggested by a study of the history of the Bank of England I have singled out the evolution of the bank's position as the office for administering the moneys and the debts of the State. All previous descriptions of the history of this bank—and there is hardly any work on banking which does not handle some important part at least of its history—pay no attention to this factor, despite its indisputable importance in the evolution of the bank.

It is the more deserving of attention in that the German Empire has not yet completely elaborated a banking administration of its funds, whilst in Austria the system has not been introduced at all.

It seems, therefore, not undesirable to draw attention to a bank which was the first to develop this relationship to the State—at least if we confine our view to existing European banks. It is true, of course, that the peculiar economic conditions of this country make it impossible to transfer in their completeness institutions which fit the economic life of England, but the advantage of studying foreign institutions is not exclusively found in imitation. Such study is calculated rather to teach us

how universal phenomena develop particular forms under the influence of individually differentiated circumstances, and as we consider these connections we become able to devise new applications of principle. This is the basis of the fact that we so often look abroad with good success for something which we require at home.

DR. EUGEN VON PHILIPPOVICH.

VIENNA, *September, 1884.*

PREFACE TO THE SECOND EDITION.

Since the appearance of the first edition of this book the system of administering funds by means of a bank has been introduced in Italy and Holland. In the German Empire since 1896 and in France since 1897 an undeniable advance has been achieved by bringing almost all the monetary transactions of the State within the exchange system of the note-issuing banks, although even to-day the Imperial Bank and the Bank of France are used merely to transfer, to mobilize public funds, not to administer them. The rapid development of the check system in the last generation inevitably demands that all public business should become a part of the intercourse of the money market. In the United States the independent Treasury administration has led on several occasions to serious disturbances of the business world, and has thus directly suggested the reform of the note system and the creation of a system of banking which would enable the State to leave public funds in the market without risk.

In the present edition alterations have been made in the introduction and the concluding chapter; the relation between States and banks of issue have altered greatly during the last quarter of a century, the question of nationalizing central banks may be regarded as settled. The concluding chapter considers the importance for the London money market of the fact that the Bank of England acts as cashier for the State. The numerous changes in legislation have been thoroughly considered. The numerous explanations given are from the chief cashier of the Bank of England, Mr. J. G. Nairne, who should be mentioned with especial gratitude.

MAY, 1911.

THE BANK OF ENGLAND AND ITS FINANCIAL SERVICES TO THE STATE.[a]

INTRODUCTION.

The relation of the State to economic phenomena may be investigated from two points of view. If we regard the State as the fountain of law, the authority which controls the economic intercourse of individuals, we can examine the part which it plays in shaping economic phenomena and the reactions of this formative influence throughout the economic life of the nation. Our attention will center as a rule on problems of maintaining general as opposed to particular interests, or of promoting the real as opposed to the imagined interests of individuals. Secondly, we may regard the State as itself forming an independent economic unit and inquire what part it takes or ought to take in the economic life of the nation. In this case we shall be concerned with the economic interests of the State, and our part will be to lay down the most effective—i. e., the most economical—organization of its administrative activities with regard to the matter in hand. Such problems belong to the science of administration and their solution is found usually in some change of administrative methods. They have also a certain significance for the economic life of the nation, since that life is so closely connected with the economic activities of the State that a change in the latter can hardly fail to react upon the former.

[a] Translated from the German by Christabel Meredith.

We may therefore examine the relation of the State to banking from two aspects. We may investigate either the influence which the State exercises over the growth and development of banking, as representative of the public interest, or the extent to which it shares in the services of banking as an independent economic unit. We shall inquire in the first case into the terms of the law of banking, in the second into the advantage which the State may secure by making use of the organized system of loans and payments established by the banks. The opinions which were held about banking at the time of its first appearance display a mixture of confused ideas about the functions of the State as a protector of common interests, and about the real or imaginary advantages of economic organization which the State might gain from the banks. The peculiar importance which was ascribed to the banks in both these connections caused the State to exercise a far-reaching influence over their formation. Indeed it may be said that, in central Europe, at any rate, until well into the nineteenth century, the State was regarded as the only sufficient authority for the creation and direction of a bank, while at the same time the name bank was used to denote institutions of the most widely differing types. This confusion in respect to the concept of a bank appears in the notion that any establishment may be regarded as a bank in which money can be deposited for safe custody under public guaranty, and removed again at any time. This notion had, it is true, been modified here and there by the end of the eighteenth century, but the

essential idea of a guaranty resting on the good faith of the community was still universal.[a]

We may distinguish three fundamental causes which led to the founding of public institutions authorized to act as banks.

Earliest in time the necessity for regulating the monetary system and maintaining order therein in the midst of a general confusion of coins, induced communities to establish institutions where specie or coin were accepted at any time on the basis of a monetary standard, whether actually coined or not, at a generally acknowledged value and was kept as *depositum irregulare*. Since these institutions also undertook to make payments and allowed

[a] Nasse makes it probable that in Venice at least a banking system not dependent upon the State existed until the end of the sixteenth century ("Jahrbuch für Nationalökonomie und Statistik," 1879, p. 348). But according to Endemann throughout Italy, even in the earliest times, to discount and deposit banks were obliged to obtain a concession from the government and to give security for this permission to carry on their business. The bankruptcies which occurred in spite of this led men on in the fifteenth and sixteenth centuries to the creation of state banks ("Studien in der rom. kan. Wirthschaftslehre," 1874, pp. 99, 106 and 426). In Germany even the business of the exchange of money, as arising out of the sovereign's right of coinage, was a monopoly of the ruler. (Cf. Becher, "Ursachen vom Auf- und Abnehmen der Städte" 3d ed., 1688, p. 274; Poschinger, "Bankwesen und Bankpolitik in Preussen," Vol. I, 1878, p. 5 *et seq.*) Similarly in England (Schanz, "Engl. Handelspolitik," Leipzig, 1881, Vol. I, p. 519). With regard to the business of bill broking on the other hand, this can not be proved. But all the statements relative to banks made by German authors of the seventeenth and eighteenth centuries imply that these institutions were guided or at least guaranteed by the Commonwealth. (Cf. Schröder, "Fürstl. Schatz- und Rentkammer," 5th ed., 1752, p. 234; Becher, *op. cit.*, p. 297; Marperger, "Beschreibung d. Banken," 1717, p. 352; Justi, "Staatswirthschaft," Vol. I, 1758 pp. 190, 279; J. K. May, "Einleitung in die Handlungswissenschaft," Vol. 1, 1763, p. 258; Sonnenfels, "Grundsätze der Polizei- und Finanzwissenschaft," Vol. III, 1776, p. 275; "Geschichtliche Darstellung der Banken," Hamburg, 1800, p. 3. Ample proof that this principle was carried out in practice in the German States is afforded by the history of banking in these States, as detailed by Poschinger in his valuable works.

checks to be drawn on them by their customers, they supplied for the transactions carried on within the circle of persons connected with them what the legal medium of exchange in general did not supply, a secure and steady means of payment. This constitutes the great economic significance of these institutions and also explains the fact that the community alone was looked upon as entitled to create and administer them. Security of economic exchange in a town or throughout a country could not be built up on the credit of an individual or of a private company. Thus these institutions appeared first in Italy under the name of *banchi del giro*, and at the beginning of the seventeenth century in rapid succession at Amsterdam, Hamburg, and Nürnberg. Their powerful influence upon national economic life is shown by the fact that their characteristic functions—the custody of money and the discharge of payments—dominated for nearly two hundred years the conceptions of what constituted banking.

The idea of turning to account some portion of the idle capital deposited in the girobanks must have followed quickly upon their foundation. It is stated that a loan bank was combined with the girobank in Hamburg soon after the establishment of the latter.[a]

It must be assumed, however, that the conception of banks as purely credit institutions belongs to the more developed view of a later period and forms the second stage in the development of banking. It did not become part of the general thought of Europe until toward the end of the seventeenth century. Here again we find the State regarded as responsible for meeting the economic

[a] "Geschichtl. Darstellung, etc.", p. 78.

needs of the nation by the creation of institutions to supply credit, and to be no longer merely deposit or transfer banks. Nearly all the projects which arose after the end of the seventeenth century, out of a conception—a conception at times fantastic—of the use and value of banks, have this point in common. Loan offices (*montes pietatis*), institutions for the issue of bills on the security of real or personal property, are to be the means of fertilizing economic exchanges and enriching the community. No one doubted that the creation of such institutions are the exclusive privilege of the State. The view that the function of the State ends with the foundation and does not extend to the management prevailed in England alone.

If we select for examination from among the institutions actually founded on the basis of projects of this kind, those which in virtue of their organization and functions would still be called banks according to our present day ideas, we shall find it at first sight impossible to deny to the Governments of the eighteenth century the merit of having furnished all possible support to the organization of credit by the foundation of banks. No single State was without its project for a bank, and there are but few in which such projects did not multiply in astonishing fashion, until at last a bank was established. A closer examination shows us, however, that hardly any of these banks owe their foundation merely to the desire to promote the economic life of the nation. Indeed, it appears to me that of all the banks whose history is known the Banco di Depositi, established in Leipzig in 1698, was alone not provided with other functions from the outset,

and was the one bank which, according to the law establishing it, was intended to make its way by combined lending and borrowing transactions—the one bank, that is, at whose establishment the advantage of fostering credit was the one thing considered.

In the case of all other banks, and especially of those giant institutions which appear in the annals of banking as the centers of the credit transactions of entire nations, the need of capital and credit in the economic life of the nation was not the sole cause and occasion of their establishment; the credit requirements of the State itself were an important additional consideration which often turned the scale. By taking in hand the establishment of a bank the State seemed able to increase the confidence of its creditors whom it admitted to be shareholders in the institution, to attract home and foreign capital through expectation of profit, and in a certain sense to "create" capital by the issue of notes. Banking came to be regarded as a mystery of State (Schröder), and no Government hesitated to adopt that means of obtaining succor in financial difficulties. Public credit became so closely associated with bank credit that even in the minds of otherwise clear-sighted persons the two conceptions could not be distinguished.[a] The idea of gain to the general public no longer appears in these cases; the leading motive for establishing banks is rather the interest of the State. This marks the third stage in the early development of banking. Attempts were made, it is true, to defend the conduct of the banks by arguments drawn from the needs

[a] Thus Sonnenfels in his "Grundsätzen der Polizei-Handlungs- und Finanzwissenschaft" writes: "The constitution of a bank of this kind (i. e., a loan bank) cannot be clearly described without defining public credit."

of business intercourse, but this did not save the banks from being exploited by the State in a most unbusinesslike manner; sometimes, indeed, their constitution was from the first such as to make them institutions for the raising and administration of public loans rather than banks. The most striking example of a bank of this kind is the Banco del Giro, established in Vienna by the Emperor Leopold I in 1703, and reconstituted in 1704. The essential functions of this institution were to accept the government bills issued by the Exchequer, to enter the sums due to the creditors to their account in its books, as a transfer capital, so that these amounts could be disposed of in separate sums by means of transfers, and to discharge state debts at fixed intervals by means of the taxes paid in, or of such private deposits as might have come in for investment. This is probably the clearest instance of the creation of a bank with the distinct intention of strengthening public credit. A similar lack of significance for the development of the economic life of the nation was displayed by many other banks of the period, which, although founded with more judgment, came to a speedy end owing to the excessive claims of the State, to which they were expected to serve as an inexhaustible source of money.[a]

[a] A detailed examination of the history of banking in the eighteenth century is not necessary for the purposes of this introduction, where it is only intended to point out the share taken by the State at that time in the foundation of banks. The examples cited are enough to show what far-reaching effects on the erection of banks followed from the idea of making them of service to public credit. For a complete treatment of the history of banking in Austria, which is especially instructive in this connection, see Schwabe-Waisenfreund, "Versuch einer Geschicht der österreichischen Staatscredits und Schuldenwesens," 2 vols., 1866; Biedermann, "Die Wiener Stadt-Bank," 1858. For Germany, Poschinger's works on banking history are the most important source. France affords only one example, the sufficiently well-known attempt under Law. The position in England will receive detailed consideration in what follows.

It is a significant fact that the credit requirements, whether of the nation at large or of the State, were met, not by accumulation of capital in deposit banks—the few experiments in this direction had little success—but by issue of notes guaranteed by the State. An inquiry into the reason for this would lead us too far. We may, however, emphasize the importance in the evolution of bank notes of the fact that their use began at a time when the prevailing opinion regarded banking as a state preserve. The monopoly of note issue required no theoretical basis when it was introduced. It arose naturally out of the existing relations between the State and banking.

The now famous suspension of cash payments by the Bank of England in the year 1797 and the resultant fluctuation in the value of its notes gave rise to a theoretical discussion and a veritable literature. Not until this had happened did the relation of the State to note issues and hence to banking in general become the subject-matter of a systematic inquiry into fundamental principles. Banking rose to increased importance in the nineteenth century, owing to the development of commerce. Originally, banks had merely been distinguished, so far as their function was concerned, into two classes, transfer (*giro*) and loan banks, and the most varied types of loan institutions had been grouped together; now this uniform conception of banking and of the influence of the State over banks came to an end. It no longer sufficed to speak of banking in general when once the varied conditions of credit facilities were recognized. Transfer, deposit, note issuing, and mortgage banks were distinguished as separate entities, each possessing its own economic function,

to which its constitution and management must be adapted. Besides, a changed conception of the relation of the State to economic phenomena in general had grown up. State interference with economic relations was rejected as a superfluous and even as an injurious tutelage. The economic advantage of the community seemed to be best secured when each individual was permitted to assert his own particular interest. The legal privilege of class and guild had given place to a law which dismissed distinctions of personal position in favor of distinctions of actual fact. The *law merchant* had given birth to commercial law, while freedom of association and the law of companies replaced the charters of individual corporations.

In banking, this liberating tendency made itself felt first in the permission to establish banks subject to the ordinary rules of law, and which did not desire to carry on the same class of business as the banks which were either managed by the State or had received privileges from it and were strengthened by its guaranties. The privileges and monopoly of note issues, however, continued to exist as a last survival of the state banking system of an earlier period.

They were not, however, based as formerly, on a belief in the exclusive banking rights of the State, but on purely econmic reasons—on the need for a centralized monetary system and for an organization which should afford strong support to the money market in times of crisis.

The establishment of banks by the State supplied a means for the easier raising of loans. Banks which were destined to raise and repay such loans must inspire confidence in the public creditors, and the economic character of the institutions must offer a guarantee for the punctuality of the Government payments. At the present

day confidence in the fulfillment of Government obligations rests on the constitutional nature of public administration, on the publicity of national expenditure, and on the control of the latter by a representative Government. A material guarantee is no longer needed.

The great increase in floating capital has continuously narrowed the function of banks in respect to the issue of public loans; in the mid-European States their share is limited to the sale, either on commission or by a definite undertaking, sometimes on a guarantee in case of deficit, which, however, under existing conditions of the money market, in no case results in permanent possession of the stock, but only, in unfavorable circumstances, in a temporary ownership; for such functions the deposit banks and post-office savings banks, with their close connection with investors, are better suited than the banks of issue. In rich countries like England and France the Government can sell its stock direct to the public, so that the banks supply merely technical assistance—the acceptance of offers of subscription—and no material cooperation.

Except in the United States, where the note issue is based on the possession of consols, the system of public debt develops independently of the banks of issue. During the last generation no important State, except France, has raised a permanent loan through its central bank, and the loans so raised in the past now form an increasingly small part of the total public debt.

Although the close connection between the State and the banks which formerly existed in regard to the note issue and the public debt has now ceased, the connection

between the two in the matter of money transfers is continually strengthening. This is no matter of an exceptional relation between the Government and the banking system, but of an extensive use of the latter for Government payments on a basis similar to that employed for private transactions. For the Government this means a simplification of the system of payments and accounts; for the community the inclusion of the Government money transactions in those of the money market. The wider the credit transactions and the more sensitive the money market, the stronger will be the demand that Government business should not be carried on outside this organization.

The employment of banks as agents for public payments began in different ways in the several European States, and is still, except in England, a fairly recent practice. Although the idea was not unknown in earlier times,[a] it is only during the last century that banks have been definitely brought into the administration of public finance as the channel through which state payments are made. In England, France, Belgium, the Netherlands, Italy, and also in the German Empire, public treasuries have been replaced by banks, and hence the balance of public money in hand

[a] Maxperger, Beschreibung der Banquen, 1717, states that "All pensions, prize money, and important civil list payments which a government or republic gives to its ministers and civil servants must be taken from the treasure chamber or treasury in bank money to the bank," where it becomes the property of the individuals entitled to it (p. 116). The sovereign also ought to have an account at the bank and to hand over his revenue to it. This will not injure the financial system, but, just as a great merchant in Amsterdam, Hamburg, or Venice looks after his business and is supported by the bank, "so will it be with the noble finance ministers, who can well make use of the support of such a bank in order to lighten their business" (p. 118).

has been combined with the capital which the banks have at their disposal to meet the demands of the community for credit. This leads to a diminution in the actual amount of the public balances. They can be kept smaller when the public money is managed by a bank than on the treasury system. The maximum necessary amount of these balances, having regard to the liabilities of the State, is dependent at any given time on their geographical distribution, on the amount of the receipts which may be counted upon, and on the speed with which money can be dispatched to the places where payment is to be made. Alterations in regard to the geographical distribution of public liabilities and the transfer of money follow from the technical advantages afforded by the banks, and this enables the State to reduce its balances. The balances still retained and not required for the discharge of liabilities are employed by the bank, and a considerable sum thus ceases to be useless capital in the public treasury. Among the payments due from the State which are taken over by the banks, those arising out of the public debt are not the least numerous, and this has brought about a further intrusion of the banks into the work of financial administration, though here also it is the technical side only of debt administration with which they are concerned. In particular, the bookkeeping connected with loans raised on the system of a payment of yearly interest is in the hands of banks in both England and Belgium.

The extent to which banks are used as instruments of financial administration, whether of debts or monetary transactions, differs widely from one country to another. In Germany and France the banks are used less for making

payments than for the geographical distribution of the public cash balances. Only in England and in Belgium has the business of the public treasury been entirely taken over by the banks. And only in England is there anything that can properly be called a history of this arrangement. In Belgium it was carried out of deliberate purpose, it happened all at once. In England it developed. It grew up by degrees, in the course of a century, without any legislative interference. Owing to the special way in which public money was administered the Government merely sanctioned what the personal administration of its Ministers had already brought to pass. The completion of the system in matters of detail was brought about, it is true, by legislative action in the nineteenth century, but the principle was established by a process of practical evolution.

Hence, even in the eighteenth century, the Bank of England stood in a relation to the State entirely different from that of the continental banks. Researches into the history of this Bank, except as regards the account of its foundation, usually begin only with the year 1797. The events of this year for the first time attracted attention to the Bank in Europe; but in the interval between the date of its foundation and this year the Bank's relation to the State had developed to an important extent, and this not only from a financial standpoint, but by an unsystematic connection, which grew up purely through the free action of the officials concerned with the whole business of managing the public money. It was chiefly in this way that the Bank secured that overwhelming influence which subsequently dominated the history of the English bank-note system, which does, it is true,

begin in 1797. This influential position is one of the main bases of its brilliant history, and especially of the fact that, unlike so many of the other banks founded at the end of the seventeenth century, it had not a merely ephemeral existence.

In the following chapters we shall describe the development of these relations between the Bank of England and the English financial administration, and the form which they present to-day.

In so doing we shall fill up a gap in the history of the Bank of England, and further shall demonstrate the great advantages which even in our own day may accrue to the State on the economic side from the organization of banking. We shall not enter into the history of the Bank regarded as a factor in the economic growth of the nation. Our special concern will be its connection with the economic activities of the State. But in describing the foundation of the Bank we shall deal briefly with both significant aspects. The Bank arose as a result of the requirements both of the State and of the community at large. But a somewhat intimate analysis of these causes is particularly desirable in view of the fact that incorrect estimates are widely held of the importance of the Bank of England to the public administration at the time at which it was founded. These estimates claim for it a position in those early years which it did not secure till more than a century later.[a]

[a] It must be recognized that Stein was the first to give a partially correct estimate of the relations between the Bank of England and the administration of public finance, but his explanation of the origin of these relations is incorrect. (Cf. Stein, "Finanzwissenschaft," 4th ed., Vol. I, p. 97, Vol. II, p. 484, *et seq.*, and the statements in what follows.)

PART I.

THE FOUNDATION OF THE BANK OF ENGLAND.

I. THE DEVELOPMENT OF ENGLISH ECONOMIC ORGANIZATION DURING THE SEVENTEENTH CENTURY WITH SPECIAL REFERENCE TO THE LOAN SYSTEM.

We have already pointed out that with few exceptions banks made their earliest appearance under the auspices of the State. This state intervention was, however, merely an external stimulus to the erection of such banks—a necessary condition rather than the cause thereof. No bank can be established or can prosper unless it satisfies a widespread and clearly recognized economic need. Such an institution if called into existence merely to satisfy the demands of a Government, lacks from the outset the conditions necessary for its success. The Austrian Banco del Giro was an example of this. In England the conditions were different. Here a steady growth in economic wealth and vigor and a rapidly increasing commerce combined, during the seventeenth century, to arouse an undeniable demand for some institution which should afford credit facilities.

The foundations of that English economic prosperity which is so striking to-day were laid in the seventeenth century. English history during this period finds its significance in the transition from the limited production and restricted trade of the Middle Ages to the world commerce of modern times. Moreover, an important change in the position of England took place between the begin-

ning and end of the century. How great the contrast between the year 1609, when an attempt was made for the first time [a] to replace, by a copper coinage, the lead tokens, which had hitherto been used in minor transactions,[b] and the year 1694, when the first bank note circulated in England!

In 1607 the royal fleet possessed but 40 ships of 50 or more tons burden; in 1695 the number of such vessels was over 200.[c] Before the Navigation Act English merchants shipped their goods for the most part in Dutch trading vessels.[d] After this act the trade to and from England was in the hands of Englishmen, while the tonnage of the English merchant service was doubled in twenty years.[e] The legal rate of interest, which in 1600 was still 10 per cent, was reduced to 8 per cent in 1624 and to 6 per cent in 1661.[f] In 1600 the proceeds of the land tax were valued at £6,000,000 only; in 1698 Davenant estimates them at £14,000,000. The English textile industry made slow but steady progress and won its independence from the Dutch, so that whereas during the first half of the century the cloth was sent to Holland to be finished and dyed, in 1699 Davenant calculates that woolen goods make up a fifth part of the total exports,

[a] [Sir R. Cotton proposed a coinage of copper coins in 1609. According to Lord Liverpool, "Copper coins were first made by royal authority in the eleventh year of James I, that is, 1613." "Treatise on the Coins of the Realm," 1805, pp. 129–130. These coins were farthings only. H. S. Foxwell.]

[b] Anderson, "History of Commerce" a. 1609. The prohibition of private coins was repeated in 1625 and in 1649.

[c] Anderson, a. 1695.

[d] Jean de Witt. "Mémoires" 1709, p. 29.

[e] Anderson, a. 1688.

[f] Schanz, *loc. cit.*, p. 562.

which total is estimated at £7,000,000. The persistent political and religious quarrels which prevailed throughout the country during the century did not prevent union in economic matters. The economic strength of the English grew without interruption in spite of the numerous changes in the form of government and of the conflicting principles which dominated the administration.

A study of English economic history during the seventeenth century reveals two factors as determining the economic greatness of the country—the colonial policy and the regulations which accompanied it in the sphere of economic administration. The great discoveries of the sixteenth century were exploited during the seventeenth century by the commercial nations in Europe. Holland and England stood at the head of the movement. The result was a transference to the northern States of the economic supremacy in Europe, previously held by the Italian Republics. The East, which was the legendary home of the European peoples and which formed in addition the material basis of their prosperity, was visited by newly discovered routes, and yielded its treasures to the nations who proved able to use the advantages of their maritime position with vigor and with economic skill. The efforts to find the shortest route to wealthy India led to numerous voyages for the discovery of a northwest passage. The result was the colonization of North America by the English, who had taken a leading part in the enterprise. Although the East India Company had made regular voyages to the East Indies since 1600, the English were slow to settle in America. Virginia was founded in 1606; New England in 1620; Mary-

land in 1635. The settlements gradually spread toward the north and south until, by the middle of the century, the English possessions in North America had reached their widest extent.[a] The colonies were wisely managed and their permanent economic value was made the first consideration in contrast to the Spanish thirst for gold. This was the common opinion as expressed by numerous writers, and it was recognized that England administered her colonies with a view to slow but lasting profit and not to secure sudden riches.[b]

As a consequence English relations with the colonies were based upon a definite economic system of exchange. The colonies were to supply England with raw materials of all kinds. England was to find a market in her colonies for her manufactured goods. Commerce and trade in colonial products was not the only object; it was also desired that these products should be worked up in England. If this were attained England need no longer carry on her foreign trade with gold, but could exchange her industrial products for other goods and secure a considerable surplus, turning the balance of trade in her favor. Such ideas were frequently enough expressed in writings, in speeches, and in Parliament, in reference to the accusation brought against the East India Company that it sent large sums of gold out of the country every year. No logical or consistent system of economic administration was attained during this century. England produced no Colbert before Robert Walpole. But the regulations for

[a] Cf. Roscher, "Colonien, Colonialpolitik und Auswanderung," 1856, p. 208.

[b] Roscher, *loc. cit.*, p. 243. "Zur Geschichte der englischen Volkswirthschaftslehre," Leipzig, 1851, chap. 3.

the development and protection of home industry, of shipping, and of commerce, led ultimately, by a succession of efforts carried out piecemeal, to a similar result—an increase in the production and commercial resources of the country. The encouragement given to the settlements of French and Dutch emigrants through whom new knowledge and skill were introduced into many industries, the careful protection accorded to new branches of industry, the active care of which the textile industries in particular were the object, all were effective methods of competition with Holland, the country of greatest economic importance at this time. How jealously the Dutch woolen industry was watched is shown by the proposal made in 1651 to buy up all the Spanish wool in order to deal a severe blow at Holland, where this wool was excellently worked up.

This jealousy of Holland resulted, in the same year, in the now famous Navigation Act. The object of this act was to secure for England a monopoly of the carrying trade from its own ports. The English nation was to be forced to develop its merchant service under the protection of a draconian prohibition of the foreign carrying trade. The Navigation Act was directed against the English colonies as well as against foreigners, and this especially after it was made more stringent in 1660 and in 1663. No goods might be brought into the colonies except in an English ship under an English captain. By this means a wider field was opened up for English industries as well as for English commerce. "The colonies were to remain undeveloped country, for which England

served as the industrial and commercial town."[a] Seldom has an economic regulation been so completely justified by its results as the Navigation Act, the *magna charta maritima*, as Child called it.

The gradual and piecemeal fulfilment of desires leads however to continually increasing demands for more complete satisfaction, and complaints of the decay and ruin of English commerce continued throughout the century in spite of the undeniable and increasing development of economic prosperity. And it is always the Dutch whose freedom, whose industries, whose commerce, whose power as capitalists are held up as models in every branch of economic organization. The non-attainment of this ideal, while it gives ground for complaint, serves also as a stimulus for renewed effort. The jealousy, to which we have already alluded, is nowhere more clearly shown than in reference to the organization of credit. Mun, Culpepper, Child, Temple, all drew comparisons between Holland and England, and never tired of pointing out the advantages which Holland derived from the supply of capital and the organized loan system afforded by its Bank. A low rate of interest, such as prevailed in Holland, was the *causa causans* of all commercial prosperity and of all economic development; until England has secured this, she can not hope to compete successfully with the Dutch. Child triumphantly records that the East India Company was able, in 1681, to borrow £600,000 at 3 per cent, and can not refrain from adding that this would be a most unwelcome piece of news for the Dutch.

[a] Roscher, "Colonien, etc.," p. 254.

The acquisition of large colonial possessions, which always means a demand for capital; the resulting oversea commerce, the concentration, due to the Navigation Act, of the entire carrying trade to and from England and its colonies in English hands, must necessarily have given a great stimulus during the second half of the century to this demand for an organized loan system and for a safe and cheap method of borrowing. England's ability, not merely to acquire colonies, but to make them prosperous; the fact that she was in a position to undertake the trade in her own products and those of her colonies in spite of the decreased use of foreign, and especially of Dutch ships;[a] the steady decline in the rate of interest; all show that her control of capital was, even at that time, considerable. But the existing institutions were quite inadequate to secure a convenient interchange between the possessors of capital and the seekers of credit. The increasing number of projects and schemes for the erection of a Bank, which appeared during the second half of the century, bear witness to this.

The now famous goldsmiths afforded at this time, though perhaps not before this time, the most important source of credit. Italian merchants, particularly workers in gold and silver, had settled in England as early as the reign of Richard II, i. e., in the twelfth century. Since the times of John and of Henry III, these merchants had been employed to collect the customs duties and taxes for

[a] It is true, indeed, that during the years immediately following the passing of the Navigation Act England had to give way to Holland in the trade to certain countries (Russia, Greenland), possibly in order to enjoy the more profitable trade with the colonies; but her increased navy was soon able to win back every market. (Cf. Anderson, a. 1660.)

the Crown, and to advance money to the latter. After the expulsion of the Jews in 1290 they acquired greater importance in this connection.[a] They made use of the advanced commercial methods employed in their own country, for it is said that even in the fifteenth century they effected their payments almost entirely by bills of exchange; payments in coin were the exception.[b] What share they took in early times in general monetary transactions can not be accurately determined. The purchase, sale, and exchange of coins had been from ancient times a royal prerogative. A special office existed for the purpose, the *cambium regis*, called also the Exchange. In Henry VIII's reign this office ceased to be filled and the goldsmiths acquired the business of the exchange. Whether the proclamation issued in 1627 by Charles I, prohibiting the goldsmiths under severe penalties from the sale and purchase of money and reestablishing the business of the exchange as a royal prerogative, was ever enforced it is impossible to determine.[c] The statement repeatedly made by English writers that the goldsmiths were not generally employed as bankers by merchants or as money changers until Cromwell's time suggests that it was enforced. In any case it is certain that private per-

[a] Schanz, "Englische Handelspolitik," Leipzig, 1881, vol. 1, p. 551.

[b] Schanz, 1, p. 557.

[c] Schanz, 1, p. 522, is of opinion that the office was not filled after 1532. In any case the bill business should be distinguished from the business of money changing. Both bore the name of "exchange." The bill office was permanently abolished in, perhaps, 1532, whilst the offices for exchanging money were revived. Anderson states that the *cambium regis* was reconstituted in 1627 and 1628. The existence of the *cambium regis*, also called Exchange, may account for the confusion made by Marperger between the English Exchequer and the Royal Exchange. "Beschreibung der Banken," p. 288.

sons deposited their money in the Royal Mint at the Tower as late as 1640. But after Charles I, in this year, seized the whole amount (£200,000) so deposited, and appropriated it as a loan for his own use, the scanty confidence felt in this unpatriotic king seems to have vanished entirely.[a] It is at any rate stated that from this time forward the merchants deposited their money with the goldsmiths. Other monetary transactions may easily have followed from this. "In the reign of William old men were still living who could remember the days when there was not a single banking house in the city of London."[b] And in 1672 the business of the bankers, who made payments on behalf of merchants, is referred to by a contemporary writer as something new and strange.[c]

But although the banking business may have been still a novelty at this time it had evidently grown considerably and was of great importance in credit transactions. In the first place the goldsmiths received money on deposit, probably originally only from merchants. They discounted the merchants' bills and lent a portion of the deposits upon security. In time they were also entrusted

[a] William Temple says in one of his writings that the Mint "had then the credit of a bank, and for several years had been the treasury of all the vast payments transmitted from Spain to Flanders." (See Anderson, a. 1672.) The Exchequer seems also to have been used as a depository. In 1666, when George Downing proposed the introduction of an appropriation clause which would have given Parliament the control over the receipts and issues and would have insured the proper application of the latter, he justified his proposal on the grounds that it would excite a feeling of security and confidence in the public. He would "make this Exchequer the best and the greatest bank in Europe," and "all nations would sooner send their money into the Exchequer than into Amsterdam or Genoa or Venice."

[b] Macaulay, "History of England," 1889, vol. ii, p. 479.

[c] Anderson, a. 1672.

with the capital of private persons. They received the rents of landowners which were sent to London, they made payments for their customers, and when they found that the deposits could be profitably employed they paid interest on them. The merchants, however, who deposited their money at call received no interest. Hence it appears that the payment of interest on deposits was connected with notice of withdrawal.[a] The banking business developed so rapidly in a short time that even in the seventh decade we find goldsmiths' notes, payable upon demand, circulating as currency. These notes were issued up to large amounts. Thus in 1666 one goldsmith had notes for £1,200,000 in circulation.[b] They were considered so safe that, on account of their more convenient form, people preferred them to coin.[c]

There is no doubt that the goldsmiths by forming a center for loan transactions greatly benefited the whole economic system. But it was in the financial embarrassments of the State that these credit facilities proved of the greatest service. Sometimes the goldsmiths made loans direct to the King; sometimes they discounted the bills issued by him and by the Government. They employed the greater part of their capital in this way. The high interest they paid to their creditors was based on the rate which they charged to the King. Child accuses them of keeping up the rate of interest artificially. Since they

[a] Anderson, a. 1645, 1665, 1672.

[b] Roscher, "Zur Geschichte der englischen Volkswirthschaftslehre," p. 144 (from "A Discourse of trade, coyn, and paper credit and of ways and means to gain and retain riches, London, 1697. To which is added the argument of a learned counsel upon an action of the case brought by the East India Company against Mr. Sand, an interloper, 1696").

[c] Law, "Considérations sur le commerce et sur l'argent," 1720, p. 150.

themselves received 8 per cent they paid 6 per cent at a time when it should have been possible to borrow at 4 per cent.[a] Experience showed, however, that the rate of interest received and paid by the goldsmiths was not high enough to protect them and their customers from the disaster which resulted from these loan transactions with the State, for in 1672 Charles II stopped all payments of capital to his creditors and reduced the interest from 8 to 6 per cent.[b] Many of the bankers, who were now pressed from all sides with demands for payment, went bankrupt, and numerous merchants and private persons connected with them suffered severely. No fewer than 10,000 families were said to have been affected by this misfortune. Public credit was destroyed for a long time to come, and in addition the confidence which people had felt in the goldsmiths was severely shaken.[c]

These events, combined with the increased need for credit, must necessarily have revived the demand for some institution, independent of the royal caprice, which should organize payments and supply loans.

In 1657 a project for the establishment of a Bank was for the first time laid before Parliament by Samuel Lamb. And from this time until the foundation of the Bank of England various projects were discussed—some in pam-

[a] Anderson, a. 1672.

[b] [No interest was offered till 1677, when 6 per cent was promised and paid until 1683. H. S. F.]

[c] Burnet relates an incident in connection with this "shutting up of the Exchequer" which shows that the custom of depositing money with the goldsmiths was usual even with those who were not merchants. The Earl of Shaftesbury, who had advised the King to take the step, had taken "all his own money out of the bankers' hands, and warned some of his friends to do the like" (History of his Own Time, London, 1724, I, p. 306).

phlets, some in memorials to Parliament; as, for instance, those of William Potter, Henry Robinson, Hugh Chamberlain, and others. A Bank was to be established which should issue notes against the deposit of securities. The projects differed more or less according to whether real property or movables were to be taken as security and whether forced or voluntary circulation was proposed for the notes. None of these projects was accepted. But it must not be thought that this was owing to a recognition of their worthlessness. Many of the pamphlets received high praise. The real cause was the fear lest the King should raise a Bank to satisfy his financial needs without the consent of Parliament. In the struggle with the Stuarts the financial weakness of the King and his dependence on parliamentary grants formed one of the most powerful safeguards of the liberties of the people.

The opinion, widespread on the Continent even at a later time, that a Bank was incompatible with a monarchy, [a] had grown to a veritable conviction in England, owing to special circumstances. In England the foundation of a Bank came to be a political instead of an economic question. It was not founded for the benefit of English economic organization, which had long needed some such

[a] For this opinion, held by nearly all the authors who wrote about Banks in the seventeenth and eighteenth centuries, see Poschinger, "Die Banken im deutschen Reich, etc.," Vol. I, p. 4, Vol. II, pp. 6, 25; "Bankwesen und Bankpolitik in Preussen," Vol. I, p. 30; Schröder, "Fürstliche Schatz- und Rentkammer" (ed. 1752), p. 234; Marperger, *loc cit.*, p. 107; "Geschichtliche Darstellung der Banken," Hamburg, 1800, p. 3. May alone (" Einleitung in die Handlungswissenschaft," 1763, p. 261) regards this fear as needless and supports his position by reference to the Bank of England, in doing which it must be acknowledged that he overlooked the difference between the English and the continental monarchies.

great institution for the supply of credit facilities.[a] No steps were taken to establish a Bank under Charles II or under James II, the last two kings of the house of Stuart. The complaints of merchants with regard to the long-desired Bank obtained no hearing until the "glorious Revolution" had taken place, and William III, a strong king, but one who enjoyed the confidence of the people, had come to the throne; until the liberties of the people and the privileges of Parliament had been confirmed by the Bill of Rights, and the Government of England been transformed from an attempt at absolutism to a parliamentary system. The requirements of public credit gave the essential inducement needed to prepare Parliament to accept at length one of the many projects, and the Bank was destined by the very circumstances of its foundation to satisfy these requirements.

II. PUBLIC CREDIT BEFORE THE FOUNDATION OF THE BANK.

English writers on finance are generally wont to refer the origin of the existing English public debt to the foundation of the Bank of England. They are so far justified in that the debt incurred by the Government to the Bank at its foundation was never repaid, and formed a basis to which during the eighteenth century enormous additional debts were added, the burden whereof still rests on the English nation, while no previous debt has any direct connection with the existing national debt. English

[a] To the great joy of the Dutch, Burnet remarks, "I had heard the Dutch often reckon up the great advantages they had from their Banks; and they concluded that as long as England continued jealous of the Government a Bank could never be settled among us nor gain credit enough to support itself, and upon that they judged that the superiority in trade must still lie on their side." ("History of his Own Time," Vol. II, p. 124.)

writers, however, do not always adopt this point of view. They tend more frequently to represent the concept of a national debt as first appearing in connection with the foundation of the Bank. The term national debt in its wider sense includes all forms of government debt, but it frequently implies not so much that the creditor's security is legally based upon public credit as that the debt is such that no provision is made for its redemption, and that consequently it forms a permanent burden upon the national income.[a] In this latter sense, the government debt to the Bank is regarded as the first embodiment of a new principle of borrowing,[b] and the history of the English national debt is, as a rule, traced back no further. This principle did not, however, come into being with the Bank of England. It may rather be said to have originated with the Banker's Debt of Charles II, for this King, as we have already mentioned, ceased payment of the capital debt in 1672 and undertook to pay interest only thenceforward. But even apart from this fact, we should have to preface our history of the Bank's connection with the national debt by a description of public credit before its foundation. The forms of debt belonging to the earlier period continue in the later one and are of the utmost

[a] Thus Postlethwayt, "The Universal Dictionary of Trade and Commerce," London, 1766, article "National Debt," writes of "that weak and shameful maxim, that it is better for the public creditors to continue perpetual annuitants only."

[b] "Thus the beginning of paper money and 'a Bank' was the beginning of national debt, properly so called. There were before this time arrears owing by Government and also some sums taken up on terminable annuities for lives; but this (the government debt to the Bank) is the first sum standing on the debit side of the national account for the redemption of which no provision was made or attempted to be made and of which the interest only was provided for." (Doubleday, "A Financial History of England," London, 1847, p. 73.)

importance with regard to the influence acquired by the Bank over public credit.

Just before the foundation of the Bank a revolution had been made in the entire system of public credit owing to the essential differences which distinguished the constitution and administration of William III's government from that of the Stuart kings. After the accession of William III a constitutional system of public finance developed in England, whose legal basis was the Declaration of Rights. Before the "glorious Revolution," on the other hand, a continuous struggle had been carried on with varying success between King and Parliament with respect to the extent of their respective powers. The Crown, however, maintained its supremacy. The conduct of the entire administration and the determination of the expenditure on the various public services were royal prerogatives. Parliament had hitherto encroached upon this prerogrative only in isolated cases and in dealing with weak monarchs. To defray his personal expenditure and the cost of the administration directed by him, the King had the hereditary revenue and the supplies voted him annually by Parliament. Parliament had no control over the system of borrowing, with the exception again of transitory interferences. Debts were incurred either by the King or by one of the separate departments of the administration. The King's debts must be reckoned as public debts so long as no distinction existed between his personal income and the public revenue; but they ceased to be part of the public debt so soon as this distinction was made. The debts incurred by the public departments had,

as a matter of course, a public and equitable character which they have always retained.

Loans to the Crown were in the seventeenth century usually raised on the security of privy seals or letters patent.

Privy seals or letters patent were either vouchers drawn up for a particular occasion, or they were distributed in great numbers throughout the country, being sent to prominent persons who thereupon advanced money to the King. They were drawn up in the usual clumsy form and embodied the King's pledge to repay the sum stated in the rescript at a given date, for which he engaged his "word never yet broken to any," and bound himself, his heirs, and his successors. A space where the sum lent was to be inserted remained blank, and was filled in by the lender. On payment of the sum to the collector appointed by the King the said collector acknowledged the receipt on the rescript and the document thus acquired legal force. It was not made out to order, and hence was negotiable. After the date on which it fell due it could be presented at the Exchequer where it served as a warrant for payment in accordance with a clause inscribed on it.[a] No interest was promised, nor was there any mention of a fund out of which the debt could be paid. The raising of loans on security of letters patent dates from the thirteenth century.[b] Letters patent were also used in recognition of

[a] A privy seal of this nature issued by James I on July 31, 1604, is printed in the Return on Public Income and Expenditure, P. P. 1869, 366 II, p. 509.

[b] Return on National Debt, P. P. 1858, No. 443, p. 87, quotes from an issue roll of the Exchequer of the year 20 Edw. I (1292).

an already existing debt. Thus in 1672 Charles II by letters patent acknowledged the interest owed by him to the deceived bankers.[a]

The debts of the public departments were incurred either through anticipation of the receipts of the revenue or through arrears of payment. A loan was raised by assignments on anticipated receipts from the taxes, or payment was actually made with such an assignment, or arrears of payment were recognized, for which there was legal liablity in case the claim was not satisfied.

Loans in anticipation of revenue can be traced far back in English history. Madox mentions them as used in the time of Henry III (1242) in the same form as that customary in the seventeenth century. Pieces of wood called tallies were issued, which, to distinguish them from the tallies of sol used as receipts in the course of the administration of public money by the Exchequer, were called tallies of pro. The tallies of pro were at first used only in the process of payment. They were instruments of payment which were issued to the sheriffs and receivers of the Exchequer as a charge on them to pay the sum inscribed thereon out of the revenue in their hands. When the accounts of the revenue were presented to the Exchequer the sums represented by these tallies of pro were assigned to the receivers in question. The name was derived from the word "pro" cut on the tally, together with the name of the person for

[a] Since letters patent under the Royal Sign Manual contained the sovereign's pledge of payment, an action could be brought if payment were not forthcoming. The celebrated Bankers Case before the court of exchequer under William III (Howell, State Trials, London, 1812, vol. 14) was based on such an action. Judgment was obtained against the Crown. Lord Somers, the chancellor, set aside the decision, which was, however, finally upheld by the House of Lords on appeal.

whom it was issued and to whom it was to be paid. These tallies of pro were also used in the anticipation of taxes. Anyone who advanced money on the security of the taxes to be anticipated was given a tally on which was notched his name, the amount advanced, i. e., the sum to be repaid, and the head of the revenue on which the payment was charged. From this use they received the additional name of tallies of anticipation. They were also called tallies of assignment, since in times when money was very scarce they were used instead of actual payments.[a]

Until the reign of Charles II these tallies of anticipation do not appear to have borne interest, and they were not negotiable. By 12 Charles II, c. 9 (1660), they secured the first advantage, and 17 Charles II, c. 1., made them negotiable instruments.

By this latter statute an order of repayment, signed by the lord treasurer, was assigned to all who should advance money to the King, in addition to the tally acknowledging the payment of the loan. This order of repayment bore the same date as the tally, and contained, besides the order to repay the capital, an order to pay interest (6 per cent) and 6 per cent additional interest in case the payment were delayed. A register was kept of all loans made on such guaranties. The claims arising out of the tallies and the orders of repayment could be transferred by indorsement on the order. All such transfers must be notified to the Exchequer for entry in the register.

[a] Madox, "The History of the Exchequer," London, 1769 (2d ed.). This description is taken from Return on National Debt, 1858, 443, p. 88, and Return on Public Income and Expenditure, 1869, 336, I, p. 340, where also is given a drawing of a tally and its inscription.

The tallies of anticipation were not always issued against specified heads of revenue. As the financial administration fell more and more into the hands of Parliament, the methods of borrowing became freer. In time acts of Parliament made it legal for the Treasury to issue tallies as soon as the taxes were imposed, in order to obtain the money more rapidly. It was sometimes arranged that these tallies should be repaid out of the supplies voted and that the latter should be ear-marked for the purpose; sometimes the act only gave a general authorization for the anticipation. The latter form of loan on security of the public credit in general was continued into a later period.[a]

As soon as the tallies fell due they were presented for payment by the last holder, either at the Exchequer or to the revenue department on whose funds they were charged. If the holder did not present himself it appears that a public announcement was made that payment was due.[b]

With regard to arrears of payment the Government either left them until they could be paid out of the receipts of the revenue and the parliamentary grants, or they were met by tallies of anticipation in lieu of payment, or finally, a formal acknowledgment of debt might take the place of the delayed payment. In the latter case the one debt was replaced by another of like amount but

[a] Thus in 9 Will. IV, c. 44, 11 Will. III, c. 2, 12 and 13 Will. III, c. 11, 1 Anne, c. 12.

[b] Cf. a notice in the *London Gazette*, October 8–12, 1696, that three tallies of pro in the names of George Tollet, Richard Uphill, and Sir Stephen Evance, levied on the Hereditary and Temporary excise "are ready to be paid" if presented to the cashier general at the Excise Office.

possessing certain advantages for the creditor. Such forms of debt developed in connection with the navy, the army, and the ordnance departments and were the origin of the navy bills and of the debentures. Unfortunately the nature of these bills in early times cannot be exactly determined. The following account may, however, be regarded as substantially accurate:

The navy bills were issued by the commissioners of the navy office in payment for stores and provisions purchased. They were vouchers resembling bills of exchange, which fell due after a certain interval, and bore interest, which interest was added to the amount of the bill when it was made out. They are first mentioned in 1693 when £1,430,439 was outstanding in such bills. The victualing and transport bills were similar forms of recognition of delayed payments. They, too, were negotiable and were issued by the victualing office, a department of the Admiralty, and by the transport office.[a]

Debentures are referred to in various parliamentary papers as being of very ancient origin.[b] But so many kinds of transactions are referred to under this name that it is difficult to determine their exact nature as a method of borrowing. In the first place we must distinguish the

[a] William Fairman, "An Account of the Public Funds," London, 1824, p. 151, gives a history of the navy and victualing bills from 1749 onward. It appears however from the parliamentary reports of an earlier date, in particular, the report of the Commissioners of Public Accounts, 1711, and from a pamphlet ascribed to Robert Walpole (The Debt of the Nation, stated and considered in four papers, I. "A letter to a friend concerning the Public Debt, particularly that of the Navy." 1712, in Lord Somer's "Tracts," Vol. XIII) that the character of the bills had not altered since the beginning of the eighteenth century.

[b] Return on National Debt, 1858, 443, p. 87, Report on Exchequer, 1831, 313, p. 94 (on p. 119 a reprint of a debenture is given).

assignments of the auditors of the receipt, officials of the Exchequer, which assignments are referred to as debentures, and to which I shall return later. Neither are we here concerned with the certificates which the customs-house collectors gave to exporters of goods who were entitled to a drawback, and by reason of which certificates the drawback was duly paid at the proper office.[a] Debentures in different forms appear also as floating debt. Thus 31 Chas. II, c. 1, provides that the commissioners for disbanding the forces should discharge the payments still outstanding by means of certificates or debentures. These are to be issued under their hands and seals and addressed to the lords commissioners of the Treasury, who shall thereupon, without other warrant of the King, issue an order for the payment of the sum so certified together with interest at 8 per cent from the date of the order. These orders for payment were assignable by indorsement. In many cases, however, the Treasury was empowered to issue debentures, which are described as vouchers signed by at least three of the lords commissioners, and bearing interest from the day of issue; they were classified and paid on notice being given in the *London Gazette*. Finally another form of debenture was customary in the ordnance office; this was taken up in the ordinary process of payment and two sorts were distinguished: ready money debentures and debentures in course.[b]

The former were merely orders from the public department on the pay office, which orders were cashed as soon as presented, the latter were classified, and whenever the

[a] Postlethwayt, *loc. cit.* Art. "Debentures."

[b] Similar forms for debentures are authorized by later acts, e. g., 1 Anne, c. 107, s. xxx *et seq.*

supply of cash allowed it—regularly every three months toward the end of the eighteenth century—were called in for payment, when the person entitled to the money was allowed interest at an agreed rate.[a]

The arrears in the army and ordnance departments in both the seventeenth and eighteenth centuries always appear in the public accounts under the titles of army and ordnance debentures. Whether the form of ordnance debenture used at the end of the eighteenth century is the same as that employed during the earlier period it is impossible to determine. It is doubtful, even considering the great stability of all forms of commercial currency in England; but the debentures of all dates must have had one common characteristic since they all embodied the recognition of a deferred payment on the part of the ordnance office. In this respect they resemble the army debentures, while the Treasury debentures must be regarded as a unique form of floating debt. The latter are only mentioned here in order to demonstrate further the ambiguity of the word debenture; so far as our researches have extended no instance of their use in the seventeenth century has yet been authenticated.[b] It has already been pointed out in another connection how important a share the bankers took in the system of public loans. By their means the above-mentioned bills were put into circulation. Under Charles II the employment

[a] 12th Report of the Commissioners on Public Accounts, 1780, and 21st Report of the Commissioners on Public Accounts, 1797.

[b] These debentures issued by the Treasury, also called loan debentures, were first issued in 1731, under the authority of 5 George II, c. 2. They were rare in England, more frequent in Ireland, and continued to be used even in the nineteenth century. Fairman, *loc. cit.*, p. 147; Return Public Income, II, p. 542.

of bankers as intermediaries took the place of the direct transactions with the public which had been usual earlier. They were soon so useful to the King's Ministers that the latter declared "that they were so necessary to the King's affairs that they knew not how to have conducted them without that assistance." [a] As soon as the subsidies were voted by Parliament, the King summoned the bankers and consulted with them in person concerning the sums which they were willing to advance on the security of the revenue. If the King came to an agreement with them, and if the interest and the date of repayment were agreed upon, then, upon payment of the sum, they received either public or royal securities, i. e., either tallies with orders of repayment, or privy seals. The interest which the King had to pay was usually 2 to 4 per cent higher than that paid by the bankers themselves. So long as the Treasury punctually fulfilled its obligations the bankers were always ready to make advances, and Clarendon considers that the loans were perhaps obtained too easily, so that there was too strong a temptation to borrow rather than to save. After 1672 the bankers drew back, rendered mistrustful owing to the reckless violation of their rights by Charles II, and the King and his Ministers were obliged once more to trust to such confidence as they might enjoy with the general public, and especially with the rich London citizens.

The military enterprises of William III soon required more supplies than the Government could secure from the proceeds of the revenue and taxes and by using the uncer-

[a] Clarendon, "Life," Vol. II, p. 218.

tain and decayed credit of its bills. Attention was turned to new methods of borrowing, which promised great results, thanks to favorable circumstances and to the fact that henceforth the consent of Parliament was necessary before a loan could be raised, and that consequently the security of the creditors was increased.

In 1689 a loan in the form of a tontine was, for the first time, raised in France, and it is probable that this form found its way thence to England, for in 1693 a project for a similar loan was adopted in this country. A million was to be subscribed for the purchase of shares at £100. Each subscriber was to receive £10 a year for seven years, and afterwards 7 per cent for life. The survivors were to succeed to the rights of any subscribers who died until the total number of claimants was reduced to seven. About £900,000 were subscribed on these terms, the remainder was borrowed on promise of 14 per cent interest for a life.[a]

In the following year recourse to a loan was again necessary, and once more an annuity was the form chosen; but this time in connection with a lottery.[b] There was to be the usual purchase of an annuity for sixteen years, but as an incentive the chance was thrown in of winning an exceptional sum by a lottery. The annuity was not high. It amounted to 10 per cent, or £1 on every £10, at which price the tickets were issued. Out of the 100,000 tickets 2,500 were raffled for; these were fortunate tickets and entitled their owners to extra annuities, the high-

[a] The rules for the tontine loan were determined by 4 Will. & Mary, c. 3. Those for the annuity connected with the remainder by 5 Will. & Mary, c. 5

[b] 5 Will. & Mary, c. 7.

est of which amounted to £1,000, while the lowest was only £10.[a]

There was an important difference between the tallies, bills, and debentures, and the form of loan last mentioned, and the loans of 1693 and 1694 mark at any rate an advance in the technique of borrowing. The superiority of these loans lay above all in the fact that Parliament had undertaken the organization of the system, had voted new taxes to cover the liabilities arising out of the loans, and had determined the conditions upon which they were to be raised. From this time forward parliamentary control over the raising of loans remained unrestricted. The privy seals now became valueless as far as the public debt was concerned, since loans could not be raised without the consent of Parliament. The bills and debentures, however, remained in use, since they merely contained an acknowledgement of a debt incurred in the course of administration. Parliament could exercise no direct control over debts of this kind, nor was the expenditure of the different public departments controlled in detail or continuously. It was consequently possible to meet expenses for the public services by loans raised by the administrative departments, and the more so since the deficit was not necessarily due to expenditure beyond that estimated in the receipts. It was otherwise with the tallies. These were orders for payment out of future revenue and con-

[a] The technical arrangements for the lottery were as follows: One hundred thousand tickets, numbered in the order of their issue, were placed in one box, and 100,000, of which half were blank and half inscribed with the amount of the prize, were placed in another box; the tickets were drawn from both boxes simultaneously, so that those numbers which were drawn at the same time as a fortunate ticket entitled the holder of the annuity certificate bearing the same number to the prize.

stituted an express claim on the latter even before it had been voted by Parliament. Their issue was likewise regularly controlled by Parliament. Permission was given, when the act granting the taxes was passed, to issue tallies for the amount voted, so that in view of its pressing necessities the treasury might obtain the money at once. The consequence often was that the taxes, when ultimately paid, did not amount to the sum granted and hence did not cover the tallies issued. The Treasury could only issue tallies on its own authority in the case of taxes voted for the lifetime of the King, in which case the receipts were entirely at the disposal of the Crown, or in other words, of the Treasury as empowered by the Crown. The Government suffered from one great disadvantage with regard to all these forms of floating debt, i. e., it was powerless to determine the conditions of the loan. Driven to issue the loan in times of need, it must accept the terms offered by the public. In this unfavorable position it made matters worse by unpunctuality in repayment and by continual fresh issues, so that it is easy to understand that its bills could often only be disposed of at great loss. This had happened in the first instance with regard to the tontine and lottery loans, and later on, at the foundation of the Bank of England.

III. THE FOUNDATION OF THE BANK OF ENGLAND AND ITS STATUTORY RELATION TO THE STATE.

The projects for the foundation of a Bank in England which were brought forward during the Commonwealth and the reigns of the two last Stuart kings, while they look upon state intervention as essential, contain no sug-

gestion of any financial connection with the Government. The projects during the reign of William III, on the contrary, are remarkable in that they all contain the proposal that the capital stock of the Bank should constitute a loan to the State. Thus William Paterson in 1692, in conjunction with several merchants, offered to advance a million to the Government in return for a yearly payment of £65,000. The stock certificates of the debt were to have forced currency or to be legal tender; in which case Paterson and his friends undertook to keep £200,000 in hand for the regular exchange of such bills. This sum was, however, to bear interest separately at 5 per cent.[a] In 1694 Paterson made a second proposal. Two millions were to be advanced to the Government at 7 per cent. The subscribers were to have the privileges of a corporation. They were to provide a fund of £200,000 to keep in circulation bills to the amount of one million, which bills were to bear interest at 8 per cent. This proposal also was not accepted, but a third project brought forward by Paterson in the same year was finally agreed to by the Government and by Parliament, and received legal sanction in 5 and 6 Will. & Mary, c. 20.

This act established the Bank of England. It foreshadowed none of those important consequences which were afterwards associated with the Bank. There is no reference to any transference to the Bank of the management of the public debt, nor of the administration of the public money. Even the note circulation of the Bank was only partially regulated. "The scheme * * *

[a] H. Macleod, "The Theory and Practice of Banking," 3d ed., 1875, I, p. 377.

was smuggled under the long tail of an act of Parliament for raising moneys generally" (Doubleday); and there is nothing in the title to suggest that the act provides for the foundation of an institution for the supply of credit facilities of great importance in public finance.[a]

After provision has been made for the levying of various duties it is enacted that the sum of £100,000 shall be set aside yearly from the proceeds of these duties for the payment of any persons who shall advance £1,200,000 to the Government before August 1, 1694. Their Majesties are empowered to constitute the subscribers of this sum into a corporation under the title of "The Governor and Company of the Bank of England," and to grant them all privileges as such, in particular the right to own property of all kinds, including land. The shares of the subscribers (stocks) are transferable in such manner as their Majesties may think fit to determine. No one may subscribe more than £20,000, a quarter to be paid at once and the remainder before January 1, 1695. Should the final payment not be made the first becomes the property of the Crown.

The corporation may deal in bills of exchange, may buy and sell gold and silver bullion, and may lend money on security of goods and merchandise with the right of selling such security if repayment be not made within three months after the time agreed upon. It may sell other goods only if they are the produce of land belonging

[a] See Appendix I; cf. also Leroy Beaulieu, who says of the foundation of the Bank: "Aussi ce n'est pas à cause d'une nécessité économique *sentie et comprise*, c'est à titre d'expédient utile à la couronne, que fut créé le plus grand et le plus solide établissement de crédit du monde" ("Traité de la science de finances," Paris, 1877, vol. II, p. 504).

to it. Trade in any kind of goods or merchandise, not arising out of the above transactions, is forbidden under penalty of a fine of three times the value of the goods. Money may only be borrowed up to the amount advanced to the Government; for any sum in excess of this the personal property of the subscribers is liable. All notes and bills of credit issued by the corporation can be assigned by one person to any other who shall voluntarily accept the same by means of an indorsement. If the corporation purchase Crown property or advance money to the Crown without the consent of Parliament, it is liable to a penalty of three times the sum in question. The repayment of the debt may be made after August 1, 1695, upon one year's notice, and the privileges of the corporation will then cease.

From the last clause it may be concluded that in founding the Bank there was no thought of creating a loan institution of permanent utility. Its economic value was wholly unappreciated, since its existence was to cease a year after it should become possible to cancel the government debt. The reservation to the Government of such a right to terminate at notice was not unusual where corporations were concerned. It was, however, not usual to make use of it unless the company exceeded its privileges. It was only a threat by means of which the good behavior of the corporation might be secured.[a]

The prerogative of erecting corporations belonged to the Crown. The King exercised this prerogative either by giving his consent to an act of Parliament declaring the formation or by the grant of a charter in cases where the

[a] Burnet, "History of his Own Time," Vol. II, p. 209.

act of Parliament permitted the erection of a corporation *in futuro*.[a] The Bank received its charter on July 27, 1694. No privileges were conferred upon it thereby except those which it received by virtue of being a corporation; the conditions regulating the election of officials, the independence of the corporation's property, the ability to sue and be sued, a common seal, the right to make by-laws agreeable to the general laws of the Kingdom.[b]

If the privileges granted to the Bank by act of Parliament are examined it will be found that they relate only to the credit facilities afforded and to commercial transactions. The latter are limited to trade in the produce of the corporation lands, and in gold and silver bullion. The loan transactions include: Dealing in bills of exchange, loans on pledges deposited (with the right to sell such pledges itself), and loans on mortgage. The borrowing transactions were not specified. It might receive money on any terms whatever, so long as its liabilities did not exceed the amount of the government debt. This debt formed its capital stock. Should the Bank wish to issue notes, it might do so up to the amount of the debt. Notes, bills of exchange, and other debts of the Bank were all looked at from the same point of view. They were the liabilities of the company, and their security rested upon the government debt.

There is no indication of any intention to give the Bank a share in the management of the public debt or of the

[a] Blackstone, Commentaries (edition 1830), Vol. I, pp. 272, 472.

[b] See an extract from the charter of the Bank of England in McCulloch's "Treatise on Metallic and Paper Money and Banks," p. 455. Anderson, a. 1694. [There is a reprint of the charter and by-laws in Lawson's "History of Banking." H. S. F.]

public money. To say that by the provisions of the act which founded it the Bank undertook the functions of the Exchequer, is untrue. This was neither embodied in the act nor was it immediately put into practice. The voluminous act, suffering in form from the usual clumsiness of English laws, contained in fact only a few principles of administration and left it entirely to the practical constructive powers of the Bank directors to find the necessary rules for the development and conduct of the Bank. The incomplete nature of the bank act certainly appears as an advantage when constrasted with the detailed provisions for organization and administration with which the German banks of the eighteenth century were equipped by law. It very soon appeared that the Bank could be managed satisfactorily without such provisions. It carried on its business with success and soon its credit with the general public was higher than that of the goldsmiths had been. It lent money at 5 per cent on mortgages and on real security. Foreign bills of exchange were discounted at 4½ per cent, inland bills at 6 per cent. The Bank's customers could obtain discount on the former at 3 per cent, and on the latter at 4½ per cent. The goldsmiths had charged 10 per cent. The bank bills were payable on demand and, like all other credit notes, bore an interest of 2d. a day per £100—i. e., rather more than 3 per cent. The goldsmith's notes had carried no interest.[a]

[a] Michael Godfrey, "A Short History of the Bank of England," London, 1695 (reprinted in John Francis's "History of the Bank of England," London, 1848, and in Lord Somers's Tracts, Vol. XI). Godfrey was a director of the Bank in 1694.

But the Bank was of most importance in relation to the public credit. It cashed the government bills. Bills when drawn on safe funds such as the land tax, and due in three or four months, had usually been at a discount of 2 per cent, which discount had risen to 30 per cent in the case of other funds, and when the interval before the bills fell due was greater. But now the Bank raised the credit of these bills so high that they were soon above par, and since the Government paid 7 or 8 per cent on them, were more sought after than bills of exchange. By thus cashing the bills representing the floating debt the Bank demonstrated at once, and most clearly, its usefulness to the Government. This usefulness appeared yet more clearly when the government bills declined in value owing to the bad state of the currency, and the Bank, in order to restore the credit of the bills, proposed an increase of its capital, as subscriptions to which the bills might be paid in at their nominal value.

In 1697 a new bank act was passed (8 and 9, Will. & Mary, c. 20) allowing the Bank to increase its capital stock in the way mentioned. The subscriptions, which were not limited in amount, were to be paid one-fifth in bank notes and four-fifths in government bills. This is the first consolidation of floating debt in England. The Bank received interest at 8 per cent on the capital thus obtained and was allowed to increase its note issue up to the amount of the new subscriptions.

The provisions of the act of 1697 were an extension of the original bank act. The privileges conferred by the latter remained unaltered, whilst a new and important

one was added. It was enacted that, so long as the Bank continued, no other bank, corporation, or company of the nature of a bank should be allowed by act of Parliament. It was this act, therefore, which first gave the Bank an exclusive privilege, a privilege limited in time indeed, since after August 1, 1710, the Bank might be dissolved under conditions similar to those stated in the original act; but, as we have already pointed out, no definite significance was to be attached to such a warning clause. The privileged position of the Bank was not yet, however, completely secured, since the undertaking that no other bank should be authorized by act of Parliament did not prevent the transaction of banking business by companies already in existence. But in 1708 the Government was again in need of money and had recourse to a loan; and the Bank then took the opportunity to secure a full monopoly through the act which authorized this loan. This third act (7 Anne, c. 30) authorized the Bank to advance £400,000 to the Government and reduced the interest on the total debt to 6 per cent. At the same time the Bank undertook to cash the exchequer bills, a species of government note. In return it was enacted that during its continuance no company consisting of more than six persons should issue bills or notes in England, which were payable on demand or within six months of the date of issue. This clause was intended to secure and protect the exclusive banking rights of the Bank of England. Although in fact it only for the benefit of the Bank of England forbade the issue of notes by any other company having more than six members, it was interpreted by contemporary opinion to imply that the

business of banking in general might not be carried on by such companies. As is well known, this legal error was not recognized until 1835.

These three acts together formed the basis of the Bank of England's position until the beginning of the nineteenth century. It would be impossible to deduce this position from the original act alone, but it is not necessary to take into account the acts passed after 1708, since they add nothing essential. The provisions set forth in these original laws relate only to the economic condition of the Bank.

The Government had conferred upon it banking rights and had determined the sphere of its operations in accordance with the opinions then held of the functions of a bank; but had refrained from influencing the particular form of its transactions, or the disposal of its resources, or the creation of liabilities.

The restrictions of the note issue and liabilities to the amount of the capital stock can not be looked upon as an administrative principle any more than the permanent clause forbidding loans to the Government without previous authorization from Parliament. The first rule was only inserted in order that the extent and starting point of the shareholders' liability might be legally determined; it was not repeated after 1708. The latter clause arose out of the constitutional and not out of the economic preoccupations of Parliament. The relation of the Bank to the Government was thus marked off by no legal regulation. The Bank is neither a government institution nor under government influence, and in this respect differs essentially from the continental banks founded either at

the same time or during the eighteenth century. Its only connection with the Government was of an economic character. For the State the Bank was an indispensable institution for the supply of credit facilities, an institution which it had indeed created by the grant of a monopoly, but with regard to the conditions of whose existence it troubled no further. The fact that in spite of this the bond between the Bank and the Government has come to be indissoluble is to be explained by the growth of particular connections, which, however, have not affected the legal relations of the two.

With regard to the Bank's relation to the administration of finance in particular, we have seen that no reference is made to this in the original act. Nor was the relation subsequently regulated by law. In fact the connection grew up in the course of the next century without receiving any legal regulation whatever. The practical administration of the finances was gradually subjected to such modifications as ended in the assumption by the Bank of the functions of the Exchequer, while, owing to the peculiar evolution of the system of public indebtedness, the Bank received a share in the administration of the debt and ultimately took over its entire management. This development had some connection with the economic monopoly granted to the Bank, since the Government was further stimulated by it to continue this monopoly.

PART II.

THE RELATIONS BETWEEN THE BANK AND THE ADMINISTRATION OF THE PUBLIC DEBT AND OF THE PUBLIC MONEY DURING THE EIGHTEENTH CENTURY.

Even a general history of the Bank of England must, in reference to the eighteenth century, be concerned primarily with the Bank's relations to the Government. And this not only because during this century its financial assistance became specially important, but more particularly because it was these relations which gradually secured for the Bank a share in the financial administration, and hence, in the natural course of things, strengthened and maintained its monopoly. This transference of public business to the Bank was made in two different directions, in a completely independent way. Its participation in the management of the public debt developed quite apart from its participation in the administration of public money. The one function did not lead to an increased exercise of the other, except that the transaction of government business in either department resulted in a general increase in the importance of the Bank's position and the respect with which it was regarded. The Bank's cooperation in these branches of financial administration received no legal sanction during this century. By the end of the century it was, however, clear that the natural strength of tradition and the influence already won would secure it a permanent and definite share in the

financial administration. But just as its administration of the debt and its administration of the public money were substantially distinct and developed independently in fact, so the growth of its activities in these directions was not uniform. The year 1751 marks the time after which it seems to have been accepted that the Bank alone should share in the management of the public debt, although this opinion found no legal expression. Suggestions made at a later date to withdraw the management of the debt from it were without effect. As regards the public money, it was not until much later, in 1780, that the Government seriously considered the principle that this should be managed by the Bank. The previous development had been independent of any law or administrative order. The measures taken after 1780 lose, however, all significance unless they are connected with the working out of this principle during the early decades of the nineteenth century. Hence, it is advisable to arrange in chronological order our account of the process by which the Bank came to take part in the management of the public debt and public money. However the several phases of this development are distributed within our period, it is indubitably the central characteristic feature of the history of the Bank during the eighteenth century. It was not until the beginning of the nineteenth century that the need for a reorganization of the financial administration in both departments led to a legal recognition of the position developed during the eighteenth century. Hence the description of this position in what follows does not end exactly with the century.

I. THE EVOLUTION OF THE NATIONAL DEBT AND OF ITS ADMINISTRATION.

A. The principle of the incorporation of public debt as recognized at the foundation of the Bank, and its subsequent application.

I. THE PRINCIPLE OF INCORPORATION.

Had there been any intention in founding the Bank to create a loan institution by whose means money could be more easily raised on the short-term paper, no disappointment need have been felt, as we have already remarked, with regard to the Bank's efficiency in this matter. The very first return issued by the Bank, which was laid before the House of Commons on November 10, 1696, shows clearly the important share taken in the business connected with the government bills. The Bank held £1,784,576 in tallies on various funds, out of total assets amounting to £2,101,187.[a] But this assistance, repeated

[a] The return is published in the Journals of the House of Commons, 1696, and also by various writers, e. g., Fairman, *loc. cit.*, p. 46, and is as follows:

	£	s.		£	s.
To sealed bills outstanding	893, 800		By tallies on several parliamentary securities	1, 784, 576	16
To notes for running cash	764, 196	10	By half a year's deficiency of the fund of £100,000 per annum	50, 000	
To money borrowed in Holland	300, 000		By cash, pawns, mortgages, etc.	266, 610	16
To interest due on bank bills outstanding	17, 876				
	1, 975, 872	10			
Rest	125, 315	2			
	2, 101, 187	12		2, 101, 187	12

and permanent though it was, did not constitute the chief significance of the Bank of England for public credit. The Bank owed its very existence to a government loan transaction. The loan act of 1694 bestowed the privilege of a corporation upon the public creditors, and this promise was carried out by the charter of July 27. The Bank of England was thus formed into a company for the transaction of banking business, whose capital stock consisted of a loan to the Government. Over this loan the Bank had no control. It could not be redeemed as far as the Bank was concerned, but was only repayable at the desire of the Government. This, if we neglect the bankers' debt, which owed its existence to a passing impulse, marks a new principle in the administration of debt. The foundation of the Bank of England forms the transition from the system of floating to that of funded debt, and it is perhaps not a mere chance that the method selected was that of incorporating the government creditors into a privileged company. Similar incorporations of government debts are phenomena which continually recur in the history of state systems of credit. They are especially frequent in Italy, and it is most probable that the banks of Genoa and of Venice came into existence in this way.[a] It is not unreasonable to suppose, considering the constant attention with which all European banks were studied by Englishmen at the end

[a] Cf. Endemann, "Studien zur rom. Kan. Wirthschaftslehre," p. 438, 455; with reference to the Bank of Genoa, see a monograph by Prince Adam Wiszniewski, "Histoire de la banque de Saint-Georges," Paris, 1865, p. 2 *et seq.*, p. 17 *et seq.;* Vetor Sandi, "Principii della storia de la republica de la Venezia," Vol. II, p. 148 *et seq.;* Vol. VI, p. 892 *et seq.* gives some particulars of the origin of the Bank of Venice.

of the seventeenth century, that the history of the creation of these banks influenced the manner in which the Bank of England was established. Indeed, the repetition of such loans during the decades immediately following the foundation of the Bank makes it almost appear as if the principle of incorporation had become a recognized rule for the administration of debt. In any case, it became of great importance in the later developments of the administration of public debt in England, owing to the type of management to which it led.

The few important loans which had hitherto been authorized by Parliament, the annuity loan in 1693 and the lottery loan in 1694, were managed by the Exchequer. The Government, which was obliged to deal directly with each individual creditor, had the books relating to the loans kept at the Exchequer. In these books transfers were recorded, reference to them determined claims of ownership, verification of lottery tickets, etc., and in them due payment of the interest was entered. The debt to the Bank of England was different in form. In this case the Government had but one creditor, the Bank, to whom it owed the entire amount of the loan; but the repayment was under its own control. The interest on the loan had to be paid in a lump sum. Hence the management of the debt passed out of the hands of the Government. Its function was confined to the transfer from the Exchequer to the Bank of the sum required to pay the interest

The business formerly connected with the management of the public debt passed to the Bank. But the Bank

merely administered its own capital like any other company. The individual who had contributed something to the government loan and had thus become a member of the corporation established by act of Parliament and charter, had in fact no claim on the State; he was simply entered in the books of the corporation as entitled to such and such a share in the capital of the company, i. e., in the public debt. He could not claim interest from the Government, but the amount corresponding to his stock was allotted to him out of the interest assigned to the company by the Government. If he alienated his claim to capital and interest and the corresponding transfer was entered in the books of the Bank, the property thus transferred was in fact a claim on a public debt. This is the position which resulted from the "incorporation of the national debt." The public creditors were formed into a corporation in order to administer the debt, which was managed like the ordinary working capital of a company.

At the same time the management of the company's business appeared as an essential part of the transaction, so that anyone who advanced money to the Government might expect to receive a profit from the business transactions as well as the regular interest paid by the State.

Hence, such loans could not fail to be a success, especially as the original subscribers had the prospect in any case of a profit due to a rise in the price of the capital stock. And indeed it must be attributed to this circumstance that, even during the times of scarce money at the beginning of the eighteenth century, the Govern-

ment obtained supplies not only by adding to the capital stock of the Bank of England, but also by the creation of new companies.[a]

2. THE ATTEMPT TO ESTABLISH A LAND BANK.

Even in 1695 an attempt was made to found another such institution. A land bank was to be created which on the one hand was to raise a loan on mortgage, and on the other was to supply the Government with means to carry on the French war.

The act 7 and 8 Will. III, c. 31, made perpetual a law passed in 5 and 6 Will. III imposing certain taxes on salt and earthenwares, and set aside the sums thus raised for the payment of such persons as should, upon this security, advance £2,564,000 before August 1, 1696. The subscribers were to form a corporation under the title of "The Governor and Company of the National Land-Bank," and to have the right to invest in landed property and to undertake the administration thereof. The shares in the original stock were divisible and transferable. The subscribers were to be paid 7 per cent per annum out of the proceeds of the above-mentioned taxes on the amount subscribed. The Bank of England was expressly forbidden to subscribe. No official of the one company might hold shares in the

[a] Persons were not wanting, however, who lamented this circumstance, "The Public Creditors, by being removed from the Exchequer, have not the same Security of the National Faith and Justice for the punctual Payment of their Principal and Interest, which they had before, but are too much exposed to the Danger of becoming, one Time or other, the Property of their Managers." ("Some Considerations on the National Debt," London, 1729. p. 72.)

other; in fact no person might hold stocks in both companies at the same time, under penalty of forfeiting them. The company was forbidden to lend money to the Crown without the consent of Parliament under penalty of forfeiting the sum lent, one-fifth of which sum was paid to the informer, while four-fifths were devoted to public purposes. All the privileges of the corporation ceased on repayment of the debt, which repayment was only possible after a year's notice. The trustees elected by the subscribers of the loan drew up, on August 10, 1695, a settlement determining the organization and administration of the Bank, which was accepted by the shareholders and registered by the court of chancery. This authorized the trustees to take up mortgages on land up to three-fourths of its value at an interest of 3½ to 4 per cent. They might issue bills up to the amount of their outstanding claims, which bills were to bear interest at a rate fixed by the trustees. These bills were to be cashed on repayment of the capital lent, and were to be called in for this purpose. A reserve fund was, however, to be established so that the convertibility of the bills might not rest entirely on security in real property. Should the loan not be repaid the trustees might use legal means to recover it.

The land bank, however, never came into existence. The act stipulated that a quarter of the subscriptions must be paid at once and the rest before January 1, 1696, under penalty of forfeiting the claim on the amount paid in. The subscription list was filled within ten days of its

issue, but the money was not paid in, and hence the whole project fell through.[a]

3. THE EAST INDIA COMPANY.

In 1600 Queen Elizabeth granted to a company of merchants, by means of letters patent, exclusive rights to trade with all countries between the Cape of Good Hope and the Straits of Magellan. The capital of the company amounted to £72,000 in £50 shares, and was, after some years, amalgamated into a joint stock company (1613). Under the name of "The Governour and Company of Merchants of London trading into the East Indies," it carried on its exclusive trade until the time of the Commonwealth. Cromwell dissolved it in 1655 and made the trade free. In 1661 it was reinstated by Charles II and its charter was afterwards renewed from time to time. In 1693 it forfeited its privileges on account of the nonpayment of a 5 per cent tax imposed on its capital, but in the same year it was reconstituted and its charter extended until 1701. The capital of the company now amounted to £744,000.[b] The granting of all these charters was an exercise of the royal prerogative which laid

[a] In contradiction of the statement made by various authors that no subscriptions were offered, see Ralph, "History of England," Vol. II, p. 658, and also the settlement which was not drawn up until after the subscription had taken place. This settlement is printed in Lord Somers' Tracts, Vol. XI, "The Settlement of the Land Bank." Although never carried out it is of great interest as the first attempt at an institution for making loans on mortgage, and its substance is given in Appendix II.

[b] Return on Public Income and Expenditure, II, p. 532. In 1772–3 the House of Commons appointed a committee to inquire into the position of the East India Company, the first report of which contains a list of the charters granted to the company.

the company under no obligation to the Government and did not make its existence depend on the fulfilment of any such obligation. But in 1698 the rights of a corporation and trading privileges were promised to any person or persons who should advance to the Government two millions at 8 per cent. This proposal was embodied in an act of Parliament, 9 and 10 Will., III, c. 44, as had been done in the case of the Bank of England four years previously, and of the intended land bank.

This act of Parliament [a] increased and prolonged some existing taxes, imposed new ones, and united the whole proceeds into a fund out of which an annuity of £160,000 was to be paid to the subscribers of the two millions. The subscriptions, from which the Bank of England was again excluded, must be not less than £100 each. One-tenth of the sum must be paid at once and the remaining tenths at intervals of two months. If the first tenth were not paid in, the subscription was to be canceled. If the remaining portions were not paid, the first payment was to be forfeited and the £160,000 annuity was to be proportionately reduced. In order that the Government might obtain the use of the money sooner, it was empowered to issue tallies, which were to be paid every three months by the commissioners appointed to receive subscriptions, and which bore interest at 8 per cent. The said commissioners must enter all subscriptions accurately in a book and send duplicates of these entries to the Exchequer, which duplicates were there registered by the

[a] The title is "An Act for raising a sum not exceeding two millions upon a fund for payment of Annuities after the rate of eight Pounds per Centum per Annum, and for settling the Trade to the East Indies."

auditor of the receipt and the clerk of the pells. Each subscriber could obtain gratis a sealed copy of the entry which concerned him. The money thus subscribed was to form the principal stock of a corporation into which all the subscribers were constituted by means of letters patent from the King. The corporation was to be called "The General Society intituled to the advantages given by an act of Parliament for advancing a sum not exceeding two millions for the service of the Crown of England," and under this name it was to enjoy "perpetual succession and the use of a common seal." The subscribers were to elect 25 trustees in a general meeting, at which only those who had subscribed at least £500 might vote, and none had more than one vote. Each trustee must have subscribed at least £2,000. The members of the society had exclusive rights to trade to the East Indies and to such countries in Asia, Africa, and America as lie between the Cape of Good Hope and the Straits of Magellan. But no one might trade for more than the amount of his share in the principal stock.

The claim to the annuity paid by the Government was a claim owned by each individual member in proportion to the amount of his share. If, however, the subscribers wished to form a joint stock company they might be recognized as such; but the company so formed was to be "restrained to such portion of the trade in the whole as all the particular members thereof would have been entitled to" had it not been formed. In this case the Government annuity would be paid to the company. The members must trade only as a company and must take an

oath to "be faithful to the General Society" and not to trade for more than the allowed amount. Out of regard to the existing privileges of the Bank of England the company was expressly forbidden to advance money, to discount bills of exchange or other bills or notes, or to borrow any money beyond what was required to buy goods or commodities for exportation, to issue bills of exchange payable in less than six months, or to "keep any books or cash" for any person or corporation. In common with the Bank of England, however, its annuities and shares were exempt from taxes, and no member could be adjudged bankrupt in respect of his stock only. The existing "Company of Merchants" was to remain undisturbed until September 29, 1701, notwithstanding the privileges granted to the General Society.

The establishment of the new society was due to the refusal of the existing company to make a loan of more than £700,000, whereupon, at the request of the treasurer, Montague, a number of merchants came forward and declared their willingness to advance two millions at 8 per cent in return for the privileges later set forth in the act. In spite of various petitions from the East India Company and vigorous opposition in Parliament, the act was forced through.[a] On September 3, 1698, the corporation received its charter as the "General Society," etc. But on September 5 it was constituted at its own request into a joint-stock company and received the name of "The English Company Trading to the East Indies." The older company, being unable to prevent the formation of the

[a] Cf. Smollet, "History of England," London, 1758, Bk. vi., p. 245.

new competing society, had itself taken part in the subscription and had contributed £315,000.[a] This policy proved advantageous, since the new company quickly became prosperous and soon sent out twice as many goods as the older one,[b] though it always kept within the legal limits.

The relations between the two companies were, moreover, friendly, so that on July 22, 1702, an indenture of amalgamation, approved by the Queen, was agreed to.[c] The older company agreed to purchase sufficient stock from the English Company to make the holdings of the two equal. For seven years the management remained separate and the profits were divided. After this a single company was formed under the name of "The United Company of Merchants of England Trading to the East Indies." This United Company advanced £1,200,000 to the Government without interest and received in return permission to borrow money to the amount of one and one-half millions, or to call in money from its members. Also its trading privileges were extended until March 25, 1726, after which date the corporation might cease upon three years' notice, on condition that all government debts to it were repaid.

The total government debt to the East India Company was now (1709) £3,200,000, for which £160,000, i. e., an interest of 5 per cent, was paid.

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[a] This and the change of name is referred to in 6 Anne, c. 17.

[b] T. Cunningham, "The merchant's Lawyer or the Law of Trade in General," London, 1762, reckons the value at a million pounds, as compared with £500,000 for the older company.

[c] The essentials of this indenture are contained in 6 Anne, c. 17. The detailed settlement of all controversial points was intrusted to Sidney, Earl of Godolphin, the Lord High Treasurer.

4. THE SOUTH SEA COMPANY.

In spite of the enormous loans which were raised through the foundation of the Bank of England and the General Society, and through the union of the latter with the East India Company, and in spite of lottery and annuity loans, the government debt, through anticipation by tallies and through arrears of payment, still continued. They were extended from one year to another and led not only to a heavy burden in interest, but to confusion throughout the public finances. They consisted of bills issued in different years, varying in amount and interest, falling due at different times, and charged on a corresponding number of different heads of revenue. Whatever security was gained by the creditors through the ear-marking of a definite fund led to the insecurity of the whole floating debt, because, owing to the uncertainty of the receipts, there was no covering for certain debts, while in other departments there was a surplus, which could not, however, be diverted. The value of the short-term bills had consequently fallen considerably, as had been the case before the foundation of the Bank. As the act establishing the South Sea Company states: A "great part of the tallies and orders * * * are in the hands of the respective treasurers or paymasters * * * and cannot be disposed of without great loss and discount, and to the damage of the public credit; and other part of the tallies and orders * * * are or may be in the hands of such person or persons as may be better pleased with the perpetual interest, after the rate of six pounds per centum per annum, redeemable by Parliament * * *."

Hence in 1711 it was decided to consolidate the whole floating debt into an interest-bearing fund, which might be repaid, but which could not be realized at the will of the creditor. It was believed that this was impossible unless the creditors received special privileges. Consequently recourse was had once more to the approved method of granting corporation rights and trading privileges to them, The South Sea Company was thus established by 9 Anne, c. 21, which act, as usual, contained also other disconnected provisions.[a] The principal contents, so far as they concern the South Sea Company, are as follows: After enumerating all the outstanding unfunded debts, certain duties referred to in 8 Anne, c. 13, which had been imposed in previous acts continued thereby, were now made perpetual; their proceeds were assigned to the payment of a 6 per cent annuity to the creditors, and were to be handed over to the commissioners of customs, excise, and stamps. The commissioners were to keep such moneys apart and to pay them weekly into the Exchequer, where they were to be assigned to a fund for the abovementioned payment. If this fund proved deficient in the course of the year the deficit was to be made up by the treasurer of the navy out of "such public money, tallies, orders, or other parliamentary securities" as were in his hands at the time. The cashier of the corporation to be erected was to give a receipt to the treasurer for these sums, which receipt was to be admitted as sufficient

[a] The title is "An Act for making good Deficiencies and satisfying the public Debt and for erecting a corporation to carry on a Trade to the South Sea and for the encouragement of the Fishery and for Liberty to trade in unwrought iron with the subjects of Spain and to repeal the Acts for registering seamen."

voucher for the treasurer's accounts. In order to make this transference of money as simple as possible, an estimate, based on a three-yearly average of the amount the funds would produce, was to be laid annually before Parliament, so that it might make "good and timely provision" to meet any deficiency.[a] Any surplus was to be applied to repaying the principal debt. All persons concerned in the debts in question might be incorporated by Her Majesty by letters patent.

The corporation thus formed was to have the exclusive privilege of trading to the South Seas and to the east coast of America from "the river of Aranoco to the southernmost part of the Terra del Fuego" and to the whole of the west coast and to all places within 300 leagues of the coast. The Portuguese colonies were excepted, and the entire trade of the company was to be confined to the districts indicated. The stock was exempted from the operation of the bankruptcy laws, and both it and the annuity were exempt from taxes. By Clause XLVIII the transactions of the company were limited out of regard to the privileges of the Bank of England, in the same way as those of the East India Company. No person might be at the same time director or governor of the Bank and of the South Sea Company. The company might issue bonds under its

[a] This use of the money assigned to the navy was the less remarkable since the navy was universally looked upon as the department whose credit was the best. In the first of the four letters on the national debt already referred to ("The Debts of the Nation, stated and considered in four papers, 1712," Lord Somers' "Tracts," Vol. XIII) the amount of the navy debt was accounted for by the fact that the deficiencies in public supplies were met out of the money assigned to the navy. "You need not be told, that far the greatest part of the other publick services admit of no credit at all; nor could any other credit of any kind have been had at so easy terms as in the navy" (p. 310).

common seal, by means of which its shares were transferable on simple indorsement. After December 25, 1716, the debt was repayable by the Government upon one year's notice, and the company's privileges were to cease after such repayment had been made.

The debt incorporated by this act consisted of three parts: (1) Bills issued before March 25, 1711 (with the exception of exchequer bills); (2) arrears of payment for the navy and army, for which such bills had not been issued, also up to this date; (3) £500,000 which was still needed for the current expenses of the year 1711. The sums referred to under heads (1) and (2) already carried an interest of 6 per cent, from the 25th of March to the 25th of December. The interest was to be added to the capital, which, after this had been done, amounted to £9,177,967, and on this a yearly sum of £550,678 was paid.

The foundation of the South Sea Company was the last time corporation rights were granted to public creditors. Henceforth the grant of economic privileges ceased to be a bait by means of which the capital of private persons might be secured for the purposes of public finance. On one other occasion only the grant of a charter was made conditional on a money payment, when the Royal Exchange Assurance Company and the London Assurance Company were established by 6 Geo. I, c. 18. The first was authorized to insure ships and merchandise and to lend money on bottomry, and for these purposes to raise a capital of one-half a million sterling. The latter was a life-insurance company. They were to advance £300,000 to the Government, and Parliament reserved the right

to withdraw their privileges within thirty-one years, on repayment of the debt. After £150,000 had been paid no further demands were made, and this sum became the purchase money of the privileges, which were never withdrawn.[a]

From this time forward the three great companies served as a lever by which public credit could, in bad times, be raised to the position required for the satisfactory conduct of public finance. The leading statesmen of the time were accused of bribery and of seeking personal gain through the foundation of the companies. Smollett calls them "the most mercenary and corrupt undertakers." [b] They had made a monopoly of the banking business, had formally partitioned out and made a privilege of commerce. They had not only not decreased the public debt but had actually made it permanent by adherence to the principle, once suggested, of an annuity debt. By vigorous efforts the nation might perhaps have paid off the debt as it fell due on definite dates, and thus have freed the present day from its burden.[c] But the converse is also possible. There is no doubt that, from the point of view

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[a] Fairman, "An Account of the Public Funds," London, 1824, p. 140. Return on Public Income and Expenditure, I, p. 62 *et seq.*

[b] Smollett, "History of England," Bk. VI, p. 246. See also Burnet, "History of his Own Time," Bk. II, p. 209. "It was said that the Bank of England and the East India Company being in the hands of Whigs, they would have the command of all the money, and, by consequence, of all the trade of England." A reproach which in reality implied praise of the financial system.

[c] Blackstone expressed a similar opinion: "And if our ancestors in king William's time had annually paid, so long as their exigencies lasted, even a less sum than we now annually raise upon their accounts, they would in the time of war have borne no greater burdens than they have bequeathed to and settled upon their posterity in time of peace, and might have been eased the instant the exigence was over." (Commentaries, Bk. 1, p. 328, edition of 1830.)

of administration of debt the course adopted was a right one and was justified by its results. The development of national life and the consequent increased need of money made the management of loans an essential part of financial administration during the eighteenth century. Thus from an economic as well as from an administrative point of view, the three great companies were the main support of the Government. Hardly any loan transactions could be managed without their cooperation; loans were raised either from their resources or by their intermediacy, they administered the funded debt and helped to keep in circulation the bills representing the unfunded debt. Their respective relations to the State did not, however, retain any similarity. The starting points of their careers are much alike, but ultimately the Bank survived, in close association with the Government, whilst the other two ceased to exist. In the following section we shall inquire into the causes which forced on the adoption of this system of public loans. We must, however, first consider the history of a form of debt which had great influence on the general development of English financial administration and determined the relation of the Bank of England to the Government and its victory over the other companies.

B. History of the exchequer bills and their importance in the system of public debt.

In 1696, when the silver coins which for several years had been much depreciated from use and clipping, and had fallen to one-third of their nominal value, were called in, it quickly became apparent that there was not enough available currency in the country. The minting did not

go on sufficiently quickly. The new money was hoarded by its possessors for fear lest they should get old and worn-out coins. Bank notes were not suitable for small transactions since £20 was the lowest value issued. Attempts were made both by the merchants and by the Government to remedy this scarcity of currency, which was universally felt. An order that the public revenues should be remitted to London by bills of exchange was issued at this time, and this expressly "lest in a time when so much money is drawn from the People, to be Recoined, they should also be deprived of the Lawful Money remaining amongst them."[a] The Bank of England undertook the business of transfer in the autumn of 1696. "Such who think it for their Conveniency to keep an Account in a Book with the Bank, may transfer any Sum or Sums not under £5 from his own to any other Mans Accompt."[b] Even before this the Government had intervened very beneficially by the issue of "bills of credit payable upon demand at the Exchequer," or, as they were afterwards called, exchequer bills.

The same act, which provided for a loan through the foundation of a land bank (7 and 8 Will. III, c. 31) contained a clause, inserted and passed through Parliament by Montague, authorizing the Treasury to issue, from time to time, bills of credit up to a total value of one and one-half millions. These bills were to be worth an even number of pounds (10, 20, 30, 50, 100, "or such other sums as shall be most convenient for the accommodation of

[a] Announcement by the commissioners of excise, *London Gazette,* July 9 to 13, 1692.

[b] The bank directors give notice of this in the *London Gazette,* November 23 to 26, 1696.

those that shall accept the same"). They were to be signed by an officer of the Exchequer, the auditor of the receipt, "sealed with the public seal appointed for the service" by the Treasury, were to be issued by the tellers in the receipt of the Exchequer, and to bear the date of the day of issue.[a] The bills bore interest from this date, of 3d. a day per £100, i. e., about 4½ per cent. "The voluntary acceptance thereof shall be deemed to be good Payment as if the persons receiving the same for Debt, Rent or other cause whatsoever were paid in lawfull Coins of this Kingdom." As much coin was always kept in the Exchequer as was likely to be required to keep in circulation the number of bills issued, and, since the land bank loan did not come into existence, the receipts from the duties perpetuated by the act referring to it were devoted to this purpose. The sum of £4,000 was placed at the disposal of the Treasury for expenses of management, and the Treasury was made responsible for the due payment of the bills and for the proper limitation of the issue. The Commissioners of the Treasury and the Exchequer officials were liable to the amount of their whole property for any issue exceeding the one and one-half millions.

In 1696 the issue of these bills only amounted to about £160,000.[b] They proved themselves useful and were favorably received. Arrangements had been made to make them redeemable in other places as well as in London. The manager of such an exchequer bank, as the offices for the purpose were called, asked for fresh bills on

[a] Some information on the method of engraving and printing these bills and binding them into books is given in a manuscript of the year 1713, which is printed in the Return on National Debt, p. 95.

[b] Return on National Debt, p. 95.

September 7 and remarked that the people "ardently craved" exchequer bills, which they used in their commerce. The tuckers and traders paid them to the weavers and combers, and these latter brought them to him.[a]

The basis of the bills was, however, changed by the land-tax act of 1697 (8 Will. III, c. 6). The Treasury was again empowered to issue bills to the amount of one and one-half millions. These bills were to "be current and pass in all payments to any of His Majesties Receivers or Collectors of any Aids Taxes or Supplies hereby granted or that shall or may be granted for the service of the war for the year 1697," with the exception of the land tax.[b] They were to be paid on demand out of the receipts of these taxes by all receivers, collectors, etc., to whom they were presented, and payment of taxes with them was good and legal payment. The clause concerning interest was omitted in this act, but was added in the act passed shortly (three months) afterwards (8 and 9 Will. III, c. 20). This later act contained further important provisions. The bills might be used in payment of all taxes and duties whenever voted, with the exception of the land tax. The interest was increased to 5d. per day on £100. It was,

[a] Treasury Papers, 1696, Vol. XL, N. 10.

[b] The form of these bills was as follows:

Exchequer,
———, 1697.

No. ——.

"By virtue of an Act of Parliament passed in the VIII year of his Ma[ties] Reign, this Bill entitles the Bearer to Five Pounds, to pass in all payments to Receiv[rs] or Collectors of any Ayds Taxes or Supplys for the service of the war for the year 1697 (except y[e] III Shilling Ayd) to be recd and satisfied by y[e] said Receiv[rs] or Collect[rs] under y[e] Penalties in y[e] Act contained" (Return on National Debt, p. 97). Similar government notes covered by funded receipts from taxes were issued in Denmark as early as 1673. Cf. Marperger, "Beschreibung der Banken," p. 321.

however, only paid for such time as the bill remained in circulation. Hence the bills were to be signed and dated whenever they were paid into the Exchequer or any other government office, or whenever presented by the holder to be cashed, or on all occasions when they were reissued by the offices concerned.[a] For the greater security and convenience of the public the Treasury was authorized to contract with any persons for exchanging and circulating the exchequer bills. Such persons were to receive as a bonus 10 per cent on the sums subscribed by them to insure that the bills should always be cashed. On April 9, 1697, the Treasury deposited in the Guildhall books for the registration of subscriptions. The amount was for the time to be £400,000. On April 23 the subscribers met and elected twelve trustees to manage the money subscribed.[b] The money promised was called in gradually up to the end of July, and at the end of September the trustees made up the accounts of their management and paid 14s. 10d. on every £100 out of the interest received from the Treasury for the bills held by them.[c] In the same year the amount for which the exchequer bills were issued was reduced to £5. On May 21, 1697, the Treasury instructed the auditor of the receipt, Sir R. Howard, "that in future you make forth no bills higher

[a] This gave occasion for frauds in the Exchequer since the officials recorded erroneous dates for the reissue and appropriated the interest. Such a fraud, perpetrated in the autumn of 1697, is circumstantially described in the Return on National Debt, p. 97.

[b] See the announcement by the Treasury in the *London Gazette*, April 5–8 and 19–22. Among others the East India Company subscribed £80,000. It called attention to this later when petitioning against the establishment of a new East India Company.

[c] *London Gazette*, April 22–26, April 24–27, May 15–July 19, August 30–September 2.

in value than £5 or £10,"[a] and since it was known that some of the bills were "irregularly" indorsed, these were called in at the end of 1697 and exchanged for new ones.[b]

The exchequer bills secured a permanent place in English public finance from the moment of their first issue. In 8 Will. III, c. 24, it was decided to issue another £1,200,000 worth of bills. These were issued and kept in circulation in the same manner as before. 9 Will. III, c. 2, arranged for an exchange of the outstanding bills, which were overcrowded with indorsements, and were thus no longer fit for circulation; it was provided that these bills should be retained as they were paid in from time to time to the Exchequer, and new bills for a like amount issued in their place. A recall of the bills for small sums and an issue of bills for £100, £50, and £25 as ordered by 12 Will. III, c. 1. Between April 26, 1697, and August 27, 1703, bills were issued to a total value of £3,060,000 of which more than £500,000 worth were outstanding at the latter date.[c]

The issue of exchequer bills was originally intended to provide a currency, to create money or a substitute for money, in order to improve the economic position; later on, however, their issue was regarded as a method of borrowing, which succeeded well on account of the security obtained by the public from the circulation contract. People soon preferred the bills to money because they bore interest. Moreover, at the time of the next

[a] *London Gazette*, 1697, No. 3345.

[b] Return on National Debt, p. 96.

[c] The Auditor of the Receipt had to keep accounts of the issue and repayment, and of the taxes through the receipts from which repayment was made. Such an account was laid before the House of Commons in 1703,

issue (1707) the national credit was more firmly established. "The credit of the nation was never raised so high in any age, nor so sacredly maintained. The Treasury was as exact and as regular in all payments as and private banker could be."[a] But a scarcity of money again made itself felt. The war of the Spanish succession employed many troops abroad, who had to be paid in coin, since the use of bills of exchange for foreign payments had not yet developed. The trade with Spain and the West Indies, which had formerly brought much money into England, was now interrupted.[b]

The Government was able on this occasion (5 Anne, c. 13) to issue exchequer bills which bore no legal interest, but which might be indorsed to bear such interest "for their better circulating." The Bank of England was empowered to determine whether interest should be paid and to what amount, and this time an arrangement was made with the Bank to circulate the bills issued, to the total value of one and one-half millions. This was the first time that the Bank undertook independently to manage the circulation. In the first contract, in April, 1697, it seems only to have been concerned as the place where the bills were cashed, for £100,000 was deposited with it to effect the exchange.[c]

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[a] Burnet, "History of His Own Time," Vol. II, p. 438.

[b] Burnet, *loc. cit.*

[c] Cf. Ret. Nat. Debt, p. 96. Here, after it has been mentioned that a circulation contract was to be made, a treasury minute of April 16, 1697, is quoted, with the remark: "The following Treasury Minute refers to the carrying out this last provision." The minute quoted, however, refers undoubtedly merely to the fact referred to in the text. A second minute of April 20 refers to the election of 12 trustees, 6 elected by the Bank, 6 elected by the Treasury, to act as "overseers" and to "see daily that the Bank has the sum of £100,000 by them for circulating exchequer bills."

The Bank now undertook to cash on demand all exchequer bills issued in accordance with the act in question. If it thought well to allow interest on the bills in order to increase their credit, it must state this on the back of such bills as were to bear interest. The interest so determined must not only be paid by the Bank on presentation of the bill at any time, but must also be added to the value by the officers of the Exchequer when the bills were paid in. As before, the interest was only paid for the time during which the bills were in circulation, i. e., were not in the Exchequer. They must be cashed within twenty-four hours at the headquarters of the Bank. In case they were not cashed at all, or not at the proper time, the holder of the bill might bring an action against the Bank, and not only was "the money so refused to be paid, but also Damages, besides full Costs of Suit." For security against forgery, books containing counterparts of the bills were handed over to the Bank. If the bills became overcrowded with indorsements or otherwise unusable the Treasury could withdraw them at the request of the Bank and issue new ones for the same amounts. *Any issue of bills beyond the amount specified in the act, either with or without the consent of Parliament, must be agreed to by the Bank.* In compensation for its trouble the Bank was to receive 4½ per cent on the bills issued at any time, reckoned for the period during which they were not in the Exchequer. This allowance was paid out of the proceeds of the house duty, which was made perpetual by the act. As, however, this was already burdened with a loan until 1710, it was provided that the allowance as it fell due quarterly should be paid in newly

issued exchequer bills, themselves bearing interest at 4½ per cent, which interest was to be paid as soon as the money from the house duty was available. The rights and privileges of the Bank were secured so long as the Government did not supply the money needed by the Bank to cash the bills and so long as the government debt to the Bank arising out of these transactions remained unpaid. Such payment could only be made upon one year's notice of the conclusion of the contract.

The exchequer bills increased in significance through these provisions. The earlier acts all contained the stipulation that the bills, so soon as they were received in payment of taxes and the Treasury was in a position to order it, should be canceled and the receipts of the fund upon which they were paid in charged with the amount thereof. The issue of exchequer bills was looked upon as an anticipation of revenue. But instead of cashing them people agreed to receive them as payment. Instead of paying a debt to the Government, a debt owed by it was canceled. But this had hitherto been regarded merely as a temporary expedient. Now the redemption and withdrawal of the bills were made dependent on a future resolution in Parliament, which, in its turn, could only take effect on one year's notice to the Bank of the cessation of the agreement. *The exchequer bills thus became a permanent circulating medium in the country.*

The Bank of England continued to be mainly responsible for their circulation. It is true that the "trustees for circulating the old exchequer bills issued anno 1697" continued to act, but they were apparently chiefly concerned with the cashing of the remaining bills of that

date.[a] In 1729 the then prosperous South Sea Company undertook the circulation of about one million for seven years without allowance, for 2d. per day per £100 (6 Geo. II, c. 1). But it collapsed in the very next year and was not only unable to maintain the bills in circulation, but was obliged to borrow a million in such bills from the Government (6 Geo. II, c. 10). There is, however, no sign of further contracts with private persons. On the contrary, by 7 Anne, c. 7 (1708), the Bank was again entrusted with the circulation of two and one-half millions at 2d. per cent per day, for an allowance of 3 per cent. The arrangements were otherwise the same as in 1707. In this case, too, the allowance was to be paid in exchequer bills until the whole debt was canceled. That of 1707 was never canceled, since by 7 Anne, c. 7, it was converted into a funded debt to the Bank, bearing an interest of 6 per cent. A much-used distinction was introduced by the last-named act between nonspecie bills, which had not been returned to the Exchequer after their first issue, and specie bills, which had been reissued on one or more occasions. The Bank was only bound to cash the latter. This distinction was removed by 9 Anne, c. 7, and the Bank declared itself ready to cash all bills, for which purpose a fixed yearly payment of £45,000 was granted to it, in addition to the allowance of 3 per cent, until the total value of the outstanding bills should be reduced to £1,900,000. To secure the necessary cash the Bank might contract loans or make calls on its shareholders,

[a] The *London Gazette*, 1709, No. 4537, and 1710, No. 4684, mentions this in connection with the fifteenth and sixteenth, respectively, renewals of their contract. Their allowance was for the future only 1 per cent.

and might issue bank notes to the amount of the received contributions or of the sums agreed in the contract, in excess of the amount otherwise allowable. This act contained other provisions of some interest.

For instance, exchequer bills for small sums of £6 5s. were to be issued for the convenience of trade, but besides these, bills of £5,000 each, not exceeding 50 in number, were to be issued for transactions between the Bank and the Exchequer. These bills afterwards played an important part in monetary transactions. The Bank now undertook to redeem the bills, but the Treasury was still bound, as hitherto, to cash them on demand, and a special officer was appointed in the Exchequer to pay the interest which was due. Thus the Bank and the Treasury, respectively, were under similar obligations to redeem the bills.

The arrangements with the Bank were repeated during the rest of the century, whenever a fresh issue of bills took place. But these new agreements established no essentially new relationship. The only changes were in the amounts allowed as interest on the capital held in cash for the purpose of redemption, and in the rate of interest on the exchequer bills themselves. This was naturally fixed according to the general conditions of the loan market, and had no influence on the real position of the exchequer bills. From this time forward throughout the whole century they remained interest-bearing government bills which were legal tender as payment of the public taxes and were redeemed in coin on demand.

A study of the evolution of the exchequer bills leads to the following conclusions: At their first issue in 1696 they were negotiable securities, payable on demand, without

other guaranty than the public credit in general. In the following year they received an additional guaranty, in that they had to be accepted in payment of taxes by any receiver or collector. Their security was increased by the appointment of an association to cash them. Their value now rested not only on the certainty that the State was obliged to receive them in payment of taxes, but also on the fact that a definite amount of private capital was set aside for their redemption. No formal change was made in the rights of the holders of exchequer bills when the Bank undertook the duty of cashing them. But it was not without influence on their value that the Government, in issuing them, was no longer relying on the success of a subscription, but could reckon on the support of a powerful bank, which commanded general respect and possessed valuable privileges. Moreover, the Bank, when it had once undertaken the business, had no motive for refusing it subsequently, since it received the additional right of a voice in deciding the total value of the bills issued. The exchequer bills thus acquired for the public the same value as the Bank's own notes, while they served as a bond between the State and the Bank, which bound the two together in ever closer relations through regularly repeated loans and contracts and, finally, through the funding of the bills into a permanent debt until the State should repay the capital needed to cash them.

The value which the bills possessed as a circulating medium caused them to be regarded as money even when first issued. Thus it was stated in *Pegasus* of August 24, 1696, that the exchequer bills "will fill this nation full of money and make trade flourish." Drake, a member of Parlia-

ment, remarked that "They created money without Bullion, and distributed great quantity of coin without help of the Mint." Parliament was especially congratulated on having made money. It had "laid a good foundation for Paper Money to supply the place of our Silver Coin."[a] The historians, Tindal, Smollett, etc., credit it with this. But there were not wanting expressions of contemporary opinion which estimated such beliefs at their true value. The exchequer bills had never had a forced currency, their acceptance in private business was voluntary and depended on the confidence felt in their convertibility. An anonymous pamphlet written in 1710 on the nature and use of money and paper credit[b] combated the notion that the Government could create money by its bills. These could be nothing but promises to pay money, and their worth resulted only from the fact that trade required much less money than was generally believed. The Dutch "lock up the great bulk of their money in the Bank of Amsterdam, and make their payments by transferring from one man's account to another in the Bank's books, so that in proportion to their vast dealing there is nowhere so small an appearance of money in specie as in the greatest trading country in the world." The exchequer bills were valuable because they effected a useful saving of specie. For this reason the Government should avoid any disturbance of the confidence felt in these bills, otherwise the demand for actual coin would again make itself felt.

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[a] "A Short History of the Last Parliament," London, 1699.

[b] "A Vindication of the Faults on both Sides with a Dissertation on the Nature and Use of Money and Paper Credit in Trade," 1710. It is a vindication of a pamphlet published earlier which attacked both Whigs and Tories (Somers's Tracts, Vol. XIII).

As a matter of fact the English Government always regarded the exchequer bills as paper credit used as circulating medium, whose value depended on the confidence in their convertibility, and it was always careful to secure this convertibility. No attempt was ever made to force exchequer bills upon the public creditors. Thus in 1697 the Lords of the Treasury pointed out to the collectors of the excise in the country that the bills which they procured in order to remit the receipts from the excise duties to London must not be exchequer bills, since the creditors of the excise who must be paid with the remittances could not be forced to accept such bills.[a][b]

The exchequer bills fully served their purposes as a circulating medium, and the loans which the Government raised on critical occasions by means of these bills are a proof that they were voluntarily and freely accepted in commerce on all sorts of occasions. It has already been noted that in 1720 the Government assisted the South Sea Company by the advance of a million in bills in order to enable it to resume its payments. Similarly in 1793

[a] Treasury Papers, 1697, Vol. XLV, May 4.

[b] This procedure shows the superior foresight and prudence of the English financial administration as compared with the French. The notes issued by the Banque Royale (1718), for which, as is well known, all the outstanding government debts were exchanged, had, when first issued, a value only for the State, since only the "bureaux de recette du roi" were obliged to accept them. But soon these became forced currency in commercial transactions and "enfin les billets de banque eurent cours dans tous les payements qui se faisaient au public, soit par le ministère des notaires, soit pour les remboursements que les débiteurs voulaient faire à leurs créanciers." Cf. "Histoire générale et particulière du visa fait en France pour la réduction et l'extinction de tous les papiers royaux," Paris, 1743, I, p. 19. A forced currency was in Law's opinion indispensable to the successful development of a paper currency. Cf. Law, "Considérations sur le commerce et sur l'argent," 1720, C. VII, p. 135.

Parliament agreed to issue £5,000,000 in exchequer bills to assist the stagnant trade.[a] £2,202,000 was lent to the London merchants, Manchester received £25,000, Liverpool £130,000, and Bristol £40,000. This made up the total issued. The bills bore an interest of 2½d. per day, but the borrowers paid a higher rate to the Government, as the South Sea Company had done. On the present occasion the rate was 4 per cent; on the former occasion, 5 per cent.

The exchequer bills were a wholly distinct type of debt. Each bill was warrant for a legal, actionable claim on the Government to receive the said bill in payment of taxes, to pay the interest thereon, and ultimately to cash it, and for a similar claim on the Bank to cash it for the amount stated plus the interest due. The total issue of the bills involved at the same time a government debt to the Bank equal in value to the issued bills. This debt was not legally reduced by the conversion of the bills at the Exchequer, since its repayment was only possible after a year's notice. Such conversion merely resulted in a counterclaim on the Bank, which was obliged to cash the bills presented to it by the Exchequer. Hence from the financial standpoint the bills were circulating share certificates in a public debt to the Bank, which, when cashed by the Bank, were retained by it, but when cashed by the State gave rise to a counter claim.

The bills acquired a special significance, because from the time of George II onward the Government, with the consent of Parliament, used them every year to anticipate

[a] [This is a misconception. The issue was made to allay panic arising from excessive expansion of credit, etc. H. S. F.]

the land and malt taxes, and they thus became the basis of the credit allowed by the Bank to Government for the purposes of current expenditure.

This circumstance, combined with the other relations between the Bank and the Government which arose out of the exchequer bills and which we have just described, was the chief ground for that confidence which the Government must have felt in the Bank in order to intrust to it the administration of the whole of the public debt. For in this matter the Bank had to overcome the competition of the two other companies with which it shared the administration during the eighteenth century.

C. *The administration of the national debt by the companies.*

I. THE DISTINCT CHARACTERS OF THE COMPANIES.

A comparison of the legal constitutions of the three companies shows a striking similarity in their positions at law. In each case the capital stock consists of a public debt which was only redeemable after a certain notice; no increase in this can be made without the consent of Parliament; the said capital forms a joint stock the shares in which are transferable in a similar manner in each case; they are alike exempt from taxes; the payment of the interest on them by the Government is similarly managed; each has a monopoly in its own particular sphere of activity. The varying relations of the companies to the Government must consequently arise from the differences in these spheres of activity, and in this respect the Bank at once stands out as distinct from the other two companies. The trading privileges

of the two latter contrast with the banking privileges of the former, banking privileges which were so carefully protected when the other two companies were founded. This contrast led to a fundamental distinction in their respective relations to the Treasury. We have already seen what an influence the Bank was destined to exercise on the management of the public money through its responsibility for the exchequer bills and its operations with respect to the various government bills. The two others could not advance so far. The Bank exerted a continual influence on public credit, though its current business; and, in fact, its own credit became closely bound up with that of the Government, owing to the exchequer bills contract. The East India Company and the South Sea Company, on the other hand, could only assist public credit in isolated cases and in a restricted manner.

The two companies were not, however, on an equal footing in this matter. The East India Company had from the first made vigorous use of its trading privileges and had carried out a consistent and successful policy, so that its fortunes supply an important chapter in English commercial history. It did not, however, concern itself with the financial business of the State more than its loan transactions with the Government demanded. It was different with the South Sea Company. This company traded only in two localities. In 1713, by the peace of Utrecht, it secured the trading privileges of the French Guinea Company, which had to provide the Spanish possessions in America with 4,800 negroes a year and to dispatch thither yearly a ship of 650 tons. In 1724 it

took over the whole fishing and trade of the Greenland Company.[a] Both enterprises resulted in a loss, in the latter case of £237,000 in eight voyages.

In 1748 the company gave up the contract with Spain and after this carried on no trade whatever.[b] Thenceforward it concerned itself still more with financial transactions, in which it was already a dangerous rival to the Bank of England. The trading companies could not legally carry on banking business proper, so that these financial transactions were only made possible by turning its capital stock to account. This consisted of a government debt; and the increased business of the South Sea Company, and in certain cases also of the East India Company, resulted from an increase in their capital by loans to the State or by incorporating existing public debts in the original fund. Hence their share in the administration of the public debt consisted in the management of individual government loans. Before we pass on to examine the nature of this management and to determine the importance acquired by the different companies therefrom we must briefly survey the general development of the forms of debt during the eighteenth century.

2. THE DEVELOPMENT OF THE FORMS OF DEBT.

In spite of the free use made during the reigns of William and of Anne of the sources of credit opened up by the erection of companies and the issue of exchequer bills the national expenditure continued to increase, and more especially in consequence of the war with France and

[a] Founded by 4 Will. and Mary, c. 17, without financial connection with the State.

[b] S. Fairman, *loc. cit.*, pp. 97–98.

Spain. England, indeed, enjoyed only five years of peace between the foundation of the Bank in 1694 and the death of Anne in 1713. Hence the system of anticipations and of deferred payments did not cease with any of the great loans. We have already seen that the South Sea Company was founded in order to free the public finances from a heavy burden of short date bills. Tallies of pro, navy, victualing, and transport bills, army and ordnance debentures were still used in the English financial system, side by side with the exchequer bills, as methods of obtaining credit. The tallies of pro did not disappear till toward the end of the eighteenth century.[a] They were then replaced partly by the more convenient exchequer bills, which were now in regular circulation, and partly by the loan debentures, a new form of debt introduced in 1731 by 5 Geo. II, c. 2.

The army and ordnance debentures, which must not be confused with the loan debentures, and the navy and ordnance bills remained in constant use. The issue of debentures had been legalized by Parliament several times, but they continued to be used only for the army and the commissariat departments, just as the navy and other bills were confined to payments of the navy and of the transport departments. These debentures and bills acquire a different character as soon as, under William and Anne, the appropriation of the supplies voted came to be deter-

[a] Tallies of pro are mentioned for the last time in the public accounts for 1729 (Ret. on Public Income, etc., I, p. 80). But the anticipations of the land and malt tax by exchequer bills and by "loans in anticipation of duties" continue to appear in these accounts until 1762. It is not clear whether this distinction rests on the difference between exchequer bills and tallies or on that between the land tax and other duties.

mined by Parliament, and the necessity of presenting accounts demanded careful organization in each department. So long as there had been no legal distinction or division made between the issues, each debt incurred by any department of Government was a debt on the whole Government, with which the department borrowing the money was only especially concerned in that the sum was repaid through it. But when a definite sum was appropriated every year for each branch of expenditure which came under parliamentary control, as for instance for the army and navy, the issue of debentures and bills, which were essentially short date bills of exchange, became a method of using credit for which each department was responsible to its own creditors. This credit must not exceed the total amount voted to each department for the year, it must be covered by this amount. We have seen in reference to the act founding the South Sea Company that Parliament itself insisted on a strict classification of the expenditure. This was carried out to a still greater extent by the Ministry, so that at the end of the financial year there was generally a considerable sum outstanding in the form of such debts as were due to the employment of credit. The next Parliament had either to provide means for this repayment or to have it funded. These forms of debt did not disappear until a new method of using credit was provided, when the different public departments ceased to manage their money independently, and a connection was established between the financial system and the Bank.

The funding of debt led to a distinction between exchequer bills and the other kinds of floating debts. The exchequer bills, as has been already explained, were based

upon a government debt to the Bank, and their funding consisted in a statement that this debt would not be repaid, so that they became a permanent interest-bearing debt to the Bank. The other unfunded debts were either transformed into additions to the capital stock of the companies, which result was brought about by means of a subscription, or into an independent interest-bearing debt. In the latter case the Government, either directly or through the intermediacy of the companies, allowed a fixed annuity in return for the payment of a certain sum in such unfunded bills. The development of the annuity debt was the basis of both forms of consolidation, since they created no independent type of government debt, but consisted merely in the transformation of one type into another.[a]

The annuity debts were either terminable or not. The limit was either the life of the annuity holder (of which form of annuity debt the tontine was a variation), or a date previously fixed. Hence were distinguished: Life annuities, tontine annuities, terminable annuities, and permanent annuities.

Mention has already been made of the first tontine and its reception. A second attempt was made in 1765. Navy, victualing, and transport bills were to be funded by means of a tontine. Six classes were made, each with a capital of £50,000, every £100 of which was entitled

[a] The following account is based mainly upon the Return on Public Income and Expenditure and upon the information given in the different loan acts, in so far as these introduced entirely novel types of public debt. An analysis, based upon this Return, of the English national debt from 1689 until the present time, is given by Leroy-Beaulieu, "Traité de la science de finances," Paris, 1877, Vol. II, Bk. II, ch. v. to viii. For the increase in amount see ch. XII.

to an interest of 3 per cent per annum. Within each class the payments due to those annuitants who died were divided amongst the survivors. This division into six classes according to the age of the annuitants was repeated in the last tontine in 1789. The annuities of the deceased members were divided amongst the survivors until each of these secured the sum of £1,000. The shares were £100 and were entitled to £4 3s. interest in the first (the youngest) class, and to £5 12s. in the sixth (the eldest) class.

The life annuities, which became important in the nineteenth century in connection with the sinking fund, at first occurred very rarely as an independent form of debt. Three such loans were raised in 1694, one in 1696, and one in 1704. The principle is the same in all cases. An interest at so much per cent was allowed on payment of a fixed sum, £100, which interest decreased from 14 to 12 and to 10 per cent, according to whether the purchase was made for one, two or three lives. The rarity of this type of debt was due to the fact that the State had to devote a large sum to the payment of the yearly annuity, owing to the necessity of paying back the borrowed capital. This obligation to repay in the present was avoided in the case of the terminable and permanent annuities.

Although the terminable annuities were arranged so as to repay the capital advanced, the repayment was under the control of the Government and was generally spread over so long a period that the burden was not unduly heavy. Loans in the form of terminable annuities and anticipations were the regular forms until 1715. At this date ten such loans were raised by the sale of annuities

for 89, 94, 99, and, in one case only, for 32 years. The principle upon which this sale was based was that a lower or higher annuity was allowed for the payment of the same amount of capital, according to whether the annuity continued for a longer or shorter period of years, so that the capital itself was repaid through the annuities. They thus differed from the life annuities only in the one point, viz, that in the latter the duration of the payment was undetermined, whilst in the former it was decided in advance. The terms long annuities and short annuities were used according to whether the payments were spread over a long or short period.

After 1761 they became more frequent again, but in connection with permanent annuities and lotteries and not independently.

The permanent annuities were by far the most important of the English public debts. The first which was created, with the exception of the bankers' debt, was the government debt to the three companies. In 1715 the State for the first time made a similar arrangement with private creditors. By 1 Geo. I, c. 19 and 21, £1,079,000 was raised by a subscription loan, and £5 per annum was to be allowed on every £100 until the capital had been repaid. In the permanent annuities the possible repayment of the capital was not ruled out, but it was not provided for in borrowing the money, whereas in the other forms of debt account was taken in determining the annuities of the repayment of the capital involved. Various attempts were made in the course of the century to repay the capital debt incurred through the permanent annuities; an account of these attempts forms the

history of the different funds (general, sinking, aggregate, consolidated, and new sinking fund). The proceeds of certain taxes were appropriated to the payment of the other annuities at their foundation. On this difference rests the distinction between redeemable and irredeemable annuities, which are not new types of debt, but only distinct names given to the debt according to the nature of the public obligation involved. In the case of the redeemable annuities the State owed the capital and a yearly interest, but was only bound to pay the latter; in the case of the irredeemable annuities the State owed a yearly interest for a certain time. To the former class belong the government debt to the companies and the permanent annuities; to the latter the life, tontine, and terminable annuities.

The yearly payment of the permanent annuities, since the capital debt existed apart from them, corresponded to the interest on the capital lent to the Government; hence it was based on varying agreements, and might be changed even in regard to a particular loan transaction. The Government had the right to repay the capital though it was not obliged to do so. Hence it could always dissolve its contract with a creditor who would not agree to a change of interest. Such a conversion of the yearly payment was not so simple in the case of the irredeemable annuities, for here the consent of the creditor was indispensable.

The determination of the rate of interest in the case of the permanent annuities naturally depended upon the state of public credit. In the first of such loans the amount of the yearly interest to be paid was fixed at so much per

cent on the total capital paid in, and a proportional payment was made on every £100. From the time of George II onward it was usual to fix the rate of interest equally low (3, 3½, or 4 per cent) whatever the state of the public credit. Hence[a] this interest was not paid on the actual capital of the creditor but was reckoned on a nominal capital allotted to him. Thus stocks were established, the first occasion being in 1747 by 20 Geo. II, c. 3, viz, shares in a funded public debt, which shares bore a fixed low rate of interest. When the Government wished to borrow a certain sum, for example, £4,000,000 in 1747, it offered stocks which bore a certain fixed interest on every £100, in this case 4 per cent. Thus it was not the interest but the price of the stock which had to be agreed upon between the State and the lender. If the interest corresponded to the public credit, the stocks were bought at par; if the interest were too low, less was paid for stock of the nominal value of £100, i. e., the Government had to issue more stocks in order to secure the desired amount; in 1747, £4,400,000 had to be issued instead of £4,000,000, and consequently £176,000 had to be paid yearly as interest instead of £160,000, i. e., about 4½ per cent. This type of loan made borrowing easier, since it opened the door to speculation, and although it was frequently abandoned later on, in order to avoid so large an increase in the national debt, it was always adopted again in times of bad credit, for example, at the time of the American war.

Lotteries were a very frequent method of obtaining money. They fall into two classes: during the first period

[a] Cf. Wilson, "The National Budget," London, 1882, p. 25, *et seq.*

they served only as temporary means of raising money without bringing any profit to the State; during the second they were used as an extra source of revenue. The turning point is marked by 28 Geo. II, c. 15, by which £900,000 of 3 per cent stocks were issued in a lottery of 100,000 tickets at £10, so that the Government made a profit of £100,000. The first of the ten lotteries which occurred during this period has already been mentioned. The remaining nine occurred between 1710 and1719. In all cases the capital was to be repaid in thirty-two years. Only the two first, however, were arranged on the principle of drawing lots for annuities (8 Anne, c. 4, and 9 Anne, c. 6). The five following were so arranged that the fortunate tickets did not carry with them a higher annuity but a capital sum which was added to that paid (£10 on £100). The total capital debt, as increased by the lottery, bore the same rate of interest and was paid back in course of time, so that those who did not win had a claim to the interest on the sum they had subscribed and to its repayment, while the winners had the interest on the sum subscribed and on that won, and a claim to the repayment of both. The two last lotteries (5 Geo. I, c. 3 and c. 9) differ in that the drawers of blanks lost all claim while the fortunate tickets carried with them proportionately higher winnings. Hence the price of tickets for these two lotteries was reduced to £3. In 1769, under Lord North, the prizes were for the first time paid in cash, and subsequently, until 1824, the lottery served not only as an independent source of revenue, but as a method of anticipating the year's receipts. Lotteries were connected with the annuity loans at the time of the seven years' war and

again during the American war, being used to facilitate the conversion, repayment, and borrowing of those loans. Those who agreed to the reduction of interest or to the repayment of the capital debt at less than the nominal value of the stock received premiums in the form of lottery tickets, the disproportionate gains on which were attractive, while their payment laid no serious burden on the Government. Thus by 10 Geo. III, c. 46, two and one-half millions of 4 per cent annuities were converted into 3 per cents, and by 14 Geo. III, c. 76, it was made possible to redeem a million of 3 per cent stock in such a way that only £88 was paid on every £100 share. The raising of loans in stocks was thus made less expensive: people either drew lots for the amount in stock or—and this was the method of procedure usual during the American war—obtained for a given sum of money a somewhat lower sum in stocks and a lottery ticket. This ticket, if successful, entitled the possessor either to a prize in money or to an equivalent amount in stocks, or to an annuity. The annuity lasted either for life, or for ninety-nine years, or for a shorter time, and differed in amount accordingly. Stocks were issued in this way in almost every year between 1758 and 1784.

Toward the end of the eighteenth century a plan frequently adopted was to issue stocks in connection with separate annuities. In 1757, by 30 Geo. II, c. 19, £3,000,000 of stock was issued, every £100 of which entitled the holder to a life annuity of £1 2s. 6d. In 1762, by 2 Geo. III, c. 10, £12,000,000 were issued in such a way that every £100 purchased £80 of 4 per cent stock, which was to be converted into 3 per cents in nineteen years, and

which was combined with an annuity of £1 for ninety-eight years. During the concluding years of the century such complicated devices were the usual methods of raising loans.

3. THE CONNECTION BETWEEN THE COMPANIES AND THE MANAGEMENT OF THE PUBLIC DEBT.

The connections possible between the three companies and a public debt of the character described were three-fold. They might become creditors of the State through the purchase of government bills, or by making loans to it direct; they might take over a government liability, making under certain conditions a debt to themselves out of a public debt already existing; or they might undertake on commission to advance the subscriptions to a public loan, to pay the yearly interest owed by the Government or to repay the capital. It is this third proceeding which is generally meant when reference is made to the management of the English national debt by the Bank. But throughout the eighteenth and during a part of the ninteenth centuries this connection between a private company and the Government was not confined to the Bank; nor was the share taken by the companies in the management of the debt restricted to acting as intermediaries between other creditors and the States. The debts to the company itself were not to be distinguished from other debts, and the duties which it undertook—of dividing amongst the individual shareholders the sum paid by the State as interest on the total debt, or of increasing this total debt by a loan to the State—were the same as those undertaken in its administration of

the other Government debts. External distinctions—such as, for example, the duty of presenting accounts with regard to its expenditure on the management of the debt—appeared only in the eighteenth century, and were never consistently maintained. Hence, in speaking of the administration of the English national debt by the companies, the debts to the companies themselves must not be excluded but must rather be regarded as the essential starting point upon which all further connections between the companies and the Government were based. It was stated in a report of the House of Lords of June 2, 1733, that nearly the whole debt of the Kingdom was incorporated in the three great companies. At that time the Government owed over forty-two millions to the companies, of which twenty-nine millions was owing to the South Sea Company alone. The companies, in administering their capital stock, thus administered nearly the whole of the national debt; and when in addition they acted as intermediaries between the Government and other creditors they were only performing a function which they had already performed for their own shareholders for a long time previously.

Two questions must thus be discussed in a study of the relations of the companies to the system of public debt. Firstly, how did the company itself regard the public debt? And here account must be taken both of the debt due to a loan from the company, and of that resulting from a transference to the company of debts belonging to other public creditors. Secondly, what share had the companies in the management of government debts to other creditors?

(*a*) *The East India Company.*—The least important part in this matter was played by the East India Company. With the exception of the sum of £3,200,000 at 5 per cent owed to it since 1703, it made only one loan to the State, namely, one million at 3 per cent in 1744, on the renewal of its charter by 17 Geo. II, c. 17. In 1755 the interest on the first debt was reduced to 3 per cent, and in 1793 (33 Geo. III, c. 47) the whole debt of £4,200,000 was combined with the so-called 3 per cent reduced annuities payable by the Bank into a single fund under the administration of the Bank. The capital stock of the company had grown by this time to seven millions, through increased subscriptions, but its financial position had been uncertain since 1773, when it had been obliged for the first time to borrow from the Government. The conversion of that part of its capital which consisted of a public debt into a property in stocks which could be freely disposed of, permitted greater flexibility in its financial transactions. The history of this and of its other financial relations to the State (payments into the Exchequer, the raising of loans) do not concern us here. The East India Company is of comparatively small interest in a study of administration of the English public debt.

(*b*) *The South Sea Company.*—A much more noteworthy part was played by the South Sea Company, which grew to such importance during the first ten years of its existence that the Bank of England sank into the background in comparison.

In 1714, that is, only three years after its foundation, a sum of £822,032, consisting of arrears of interest due to the company and a government unfunded debt, was incor-

porated by a corresponding increase in the company's capital stock by 1 Geo. I, c. 21. The latter now amounted to ten millions, on which a yearly interest, reduced in 1716 to 5 per cent, was paid by the Government. In 1719 (5 Geo. I, c. 19) its capital was further increased. The proprietors of certain lottery annuities (created by 8 Anne, c. 4) of thirty-two years' duration, were permitted to exchange these for the company's stock, £11 10s. being given in stock for every £1 annuity. £1,202,702 were subscribed. Besides this the company advanced £544,142 in cash. Its capital and the government debt to it were thus increased to £11,746,844. A more important project for consolidation and funding was brought forward in 1720, when it was determined to convert the various floating debts and the outstanding terminable and permanent annuities into a great fund of permanent annuities at 5 and 4 per cent. Both the Bank of England and the South Sea Company competed for the privilege of carrying out this scheme, which privilege the South Sea Company finally secured by its extravagant offers.[a] The company obtained permission, by 6 Geo. I, c. 4, to carry out the consolidation by taking in through subscription or purchase from the creditors: 1. The irredeemable debt, consisting of £666,821 yearly in long annuities (96, 98, and 99 years) and £127,360 yearly in short annuities (thirty-two years, the remainder of the lottery annuities not subscribed in the previous year).

[a] The South Sea Company possessed a powerful friend in Mr. Aislabie, who was then chancellor of the exchequer, and it is said that there was some thought of transferring to it the whole debt owed to the Bank. "Some Considerations on the National Debt," London, 1729, p. 71. Cf. with reference to the whole plan of consolidation and its consequences, Anderson a. 1720.

The long annuities were capitalized at twenty years' purchase, the short lottery annuities, which had still twenty-three years to run, at fourteen years' purchase. 2. The redeemable debt, consisting of £11,779,660 at 5 per cent, and £4,776,821 at 4 per cent, at such prices as might be agreed upon between the company and the holders. For this purpose the company might borrow money on its bonds or on bills, make calls for money on its members, or increase its capital by the issue of fresh stock. The latter was allowed up to an amount corresponding to the combined prices of the long annuities, at twenty years' purchase, of the short annuities at fourteen years' purchase, plus a sum equal to the market value of the 4 and 5 per cent redeemable debt. In return it undertook to pay the Government £4,156,306 for the cession of the redeemable debt, and £2,978,599 for that of the irredeemable debt, or a total of over seven millions.

The company had to buy out any creditor who did not wish to subscribe. The money for this purpose and for its payment to the Government it hoped to obtain through the sale of the stock, since it expected to make a profit by its transactions with the public creditors. For although the amount to which its capital might be increased was limited as explained above, there was no limit set on the price at which the stocks were to be sold. This constituted the risk of the whole undertaking, for the temptation to use every means to drive up the price of the stock proved too great. And in actual fact, for a large number of the subscriptions, the company raised the price of the £100 share to £1,000 in money or government debt. In spite of this exorbitant figure the greater part of the debt

was subscribed, and the capital of the company was increased to £7,802,200, for which the Government had to pay an annuity reckoned in part at 4 and in part at 5 per cent, and amounting in all to £1,861,114. Only £2,560,790 of the total redeemable debt and £161,380 of the total irredeemable debt was not subscribed. These amounts the South Sea Company could only secure by purchase. The purchase was never made, for in the same year the company was thrown into such financial distress by the crisis which has since received the name of the "South Sea Bubble," that the most vigorous efforts on the part of the Government were required to save it from complete ruin, and there could be no mention of any payment from the company to the State.

The trade carried on by the South Sea Company proved no source of income, and hence it had nothing but the yearly interest from the Government and the profits on the sale and purchase of its stock, out of which to provide a dividend for the shareholders. In spite of this the directors announced on August 31, 1720, "that 30 per cent in money should be the dividend for the half year which would be due at Christmas following." But not even the Christmas dividend was paid, for by November the stock had fallen between £600 and £800 and the "bubble" had burst. Parliament instituted proceedings against the company's directors, clerks, and bookkeepers. Mr. Aislabie and the secretary of state, Mr. Craggs, who were found guilty of fraudulent relations with the company, lost their seats in Parliament; the property of all of them was confiscated and administered by trustees for the benefit of the creditors. Finally Walpole proposed energetic

measures to restore financial order. His project became law by 7 Geo. I, c. 5. It provided for the transfer of nine millions of the capital stock of the South Sea Company to the Bank, and of a like sum to the East India Company, at a price to be arranged between the companies. This proposal was not, however, carried out; and it was not until 1722 (8 Geo. I, c. 21) that the sale to the Bank of four millions in stocks was decided upon and actually accomplished. The Bank's stock was increased by this amount and an annuity of 5 per cent (4 per cent after 1727) on the increase was paid to it by the State.

The reduced stock of the South Sea Company was subjected to further changes in 1722. By 9 Geo. I, c. 6, it was divided into two portions of £16,901,100 each; half only was retained as trading stock for the company, the other half was to be regarded as a government annuity-bearing debt held by the company. This debt continued to be administered by the South Sea Company, under the name old South Sea annuities, until its repayment.

Both debts were diminished through redemptions by about two and one-fourth millions by 1733, when the whole outstanding debt to the company amounted to £29,302,200. By 6 Geo. II, c. 28, a further portion of the trading stock was added to the old South Sea annuities, so that the two now amounted to £14,641,100 and £15,651,200, respectively. Moreover, the trading stock was divided into four equal parts and three-fourths of it was converted into an unincumbered, negotiable annuity stock. Hence, the company's capital sank to £3,662,776 whilst the remaining £10,988,327 was converted into the

new South Sea annuities which were placed upon the market under the management of the company.

During the succeeding years £3,276,890 of the South Sea debt was paid off. In 1751 the debt was again increased by 24 Geo. II, c. 2, which allowed £2,100,000 to be borrowed not *from* but *through* the South Sea Company. The resulting 3 per cent annuities, 1751, so called, were administered by the company, and the total government debt thus administered was now made up as follows:

	£
Trading stock	3, 662, 780
Old South Sea annuities	12, 404, 270
New South Sea annuities	8, 958, 255
3 per cent annuities, 1751	2, 100, 000
Total	27, 125, 305
Interest (3 per cent on all debts after 1757)	813, 760

After this time there was a break in the transactions between the company and the State. No further loans were raised through the company. It existed as a corporation until the middle of the nineteenth century, having no other function than to administer a portion of the national debt; with regard to which it undertook the paying off of capital, the payment of dividends, and the transference of stock. The principle of incorporating the national debt was nowhere more strictly carried out than here. A corporation consisting of a governor, a subgovernor, a deputy governor, and 21 directors had no further reason for its existence than a joint ownership of a government debt, and no other function than to trade in this debt and to carry out the technical duties connected with the payments.

The paying off of the South Sea debt proceeded but slowly during the eighteenth century. In 1797 the total was still as much as £21,182,285. A financial report of the House of Commons for July 19 of this year is in existence, which shows clearly that there was still no distinct intention to transfer the entire management of the public debt to the Bank. The report remarks:

"It may also deserve some consideration, at some future period, whether a further saving might not be procured for the Public, if the South Sea Company could, by the consent of the Proprietors, be dissolved, as happened in the recent instance of the Million Bank; in which case the management of that part of the Public Debt which consists in South Sea Annuities might be transferred to the Exchequer, or to the Bank of England, in the same manner as Parliament has recently transferred to the Bank the management of that part of the Public Debt which was previously under the management of the East India Company."

"It may also become a question of great importance to the public interest, if the South Sea Company should prefer the continuance of its present corporate capacity, whether it may not be enabled, under its present Charter, to lessen the public burthens by taking under its management any future augmentations of the Public Debt, and transacting the necessary Transfers and Payments of Dividends, at a lower rate of allowance than the Bank of England may at any time be willing to accept."

The development of closer relations between the Bank and the Government explains why no such transfer was ever made.

(*c*) *The Bank of England.*—Two factors must be distinguished in describing the development in this case also; the increase in the public debt to the Bank, and the increase in the public debt which was incurred through the Bank as intermediary. The former was never so great as in the case of the South Sea Company, while the latter was much more important.

The original capital, which bore interest at 6 per cent, continued to receive yearly payment at this rate until the middle of the century, by which time it had been increased by other loans and consolidations bearing interest at lower rates. The first funding of exchequer bills and their interest, the peculiar character of which has already been pointed out, was authorized by 7 Anne, c. 7, but at the same rate of interest, which was then (1710) the usual one. The national debt was thereby increased by £1,775,027. In 1717 the rate of interest on this debt was lowered to that paid on the East India and South Sea debts, i. e., to 5 per cent. The same act (3 Geo. I, c. 8) authorized the funding of £2,000,000 in exchequer bills at a like rate of interest. Two years later the debt to the Bank was further increased by the purchase already referred to of four millions of South Sea stock, which after 1727 bore interest at 4 per cent only. At the same date the annuities on the debt due to the consolidation of the exchequer bills were reduced to the same rate. In 1728 and 1729 (1 Geo. II, c. 8, and 2 Geo. II, c. 3) three millions (altogether) at 4 per cent were added, while at the same time the whole of the debt funded in 1710 and half a million of that funded in 1717 was repaid. Another million of the latter was canceled in 1738. The

total 4 per cent debt thus amounted to £7,500,000. In 1742 (15 Geo. II, c. 13) the Bank undertook to advance £1,600,000 without interest, if the annuity paid on its original capital remained untouched, which annuity was equivalent to an interest of 3 per cent on the total of £3,200,000. In 1746 (19 Geo. II, c. 6) exchequer bills to the amount of £986,800 were funded at 4 per cent. In 1750 (23 Geo. II, c. 1) the interest on the whole debt was reduced to 3½ per cent, with the proviso that after December 25, 1757, it was to be only 3 per cent.

The following table gives the debt to the Bank in a way similar to that given above for the debt of the South Sea Company:

1. Original capital:	£
Government debt in 1694	1,200,000
Government debt in 1708	400,000
Government debt in 1742	1,600,000
2. Transference of part of the government debt owed to the South Sea Company	4,000,000
3. Other loans:	
1717. Consolidation of remaining exchequer bills	500,000
1727	1,750,000
1728	1,250,000
1746. Consolidation of exchequer bills	986,800
Total	11,686,800
Interest (3 per cent on all debts after 1757)	350,604

The government debt to the Bank during this period was thus not equal to half the debt administered by the South Sea Company. It remained unaltered until the second decade of the nineteenth century. During the whole of the second half of the eighteenth century there was no increase in the national debt through loans from the companies. As we have already noted, lotteries joined to annuities, and various combinations of annuity loans, were

then more in favor. The share which the Bank had so far taken in the management of such loans dated from 1710, when for the first time it received the subscriptions for a lottery loan of one and one-half millions. Considering the existence of a special "lottery annuity" department in the Exchequer, it is more than doubtful if it also undertook the payment of the annuities connected with the loan. It did, however, receive the subscriptions for the lotteries in the two following years 1711 and 1712. Whether or no it had to pay the tickets and interest connected with these loans, it was at any rate not long concerned in this business, for in 1720 nearly all the lottery annuities were converted into South Sea stock.

The Bank was again entrusted with the raising of an annuity loan in 1714. 1 Geo. I, c. 19 and 20, authorized the raising of £910,000 and of £169,000, on which an interest of 5 per cent was promised. The Bank kept the books for the subscriptions, received the money, and sent it to the Exchequer. This share in the work of receiving subscriptions was undertaken in comparatively early times and continued for all subsequent loans. On the other hand, the payment of annuities through the Bank was a policy not continuously adhered to. That this method was adopted in 1714 is shown by the yearly payment made to the Bank for its administration. The same arrangement was made in 1726 for a loan of a million administered by the Bank (12 Geo. II, c. 2), and again in 1731 for a sum of £800,000 (4 Geo. II, c. 9), and after this frequently until the middle of the century, although the payment of annuities through the Exchequer was not altogether discontinued.

A different policy was initiated in 1751. This year marks an epoch in the history of the English public debt. The debts to the South Sea Company and to the Bank were definitely set in order for a long time to come and the same thing was done for the other debts not connected with the companies. By 25 Geo. II, c. 27, various 3 per cent annual charges, payable some through the Bank and some through the Exchequer, which amounted in all to £9,137,821, were united in a single fund, the management of which was entrusted to the Bank. The interest on these "3 per cent Consolidated Annuities" was paid by the Bank half-yearly, on the 5th of January and the 5th of July.

In addition various 4 per cent annuities were converted into 3½ per cents, with the proviso that half of them should be reduced to 3 per cent in 1756, and the other half in 1758. After buying out the creditors who would not agree to this reduction the annuities of the remaining creditors were united into a fund of £17,701,323 under the name "3 per cent Reduced Annuities." This fund also was administered by the Bank, which paid the interest on the 5th of April and the 10th of October in each year.

Besides the above-mentioned stocks, there were still the so-called bank annuities on the loan of a million in 1726, and £400,000 of 3½ per cent annuities which were redeemed in 1752. The total public debt administered by the Bank was thus composed as follows:

	£
Three per cent consolidated annuities	9,137,821
Three per cent reduced annuities	17,701,323
Three per cent bank annuities	1,000,000
Total	27,839,144
Interest (3 per cent after 1757)	835,174

To the above debts must be added the exchequer annuities, annual payments for life or for a term of years payable at the Exchequer, which had not been subscribed to form any of the preceding stocks, and which could not be redeemed without the consent of the holders. These amounted to a yearly sum of £208,906. With this exception the administration of the entire public debt was practically in the hands of the companies. The Bank of England took the most important share, exceeding that of the South Sea Company by a sum of twelve millions. The rate of interest on the whole of the debt was reduced to 3 per cent.

This is not a history of the English public debt, but merely a study of the growth of its connection with the banking system; hence the abundant material available for the history of the debt during the second half of the eighteenth century need not be further examined.

The principle that the administration should be deputed was established by the middle of the century. The policy became definite, not by any further development of the principle, but by its constant application when fresh debts were contracted. No fresh light would be thrown on the subject by following out in detail the numerous payments, new loans, consolidations, and increases and reductions of interest. It is, however, worth while to trace the increase in the total public debt, since this marks the growing importance of the Bank and the declining influence of the South Sea Company. Repayments alone were made to the latter, while the Bank was continually entrusted with new loans, and the total public debt ad-

ministered by it as intermediary amounted in 1800 to £393,114,680. After 1751 the fresh debt was generally added to one of the two existing funds, and increased either the 3 per cent reduced annuities, which had risen to £56,850,983 in 1800, or the 3 per cent consolidated annuities, which in the same year amounted to no less than £244,983,444. Besides these there were 4 and 5 per cent annuities, forming separate funds and amounting to £44,762,860 and £48,250,426, respectively. The million of bank annuities and the so-called 3 per cent imperial annuities (loan to the German Emperor), which amounted to £7,266,967, made up the remainder of the permanent annuities administered by the Bank. After 1761 it had also the charge of terminable annuities, which, in 1800, involved a yearly interest of £1,665,739. In comparison with these important items of the debt, the exchequer annuities, which only required a yearly payment of £131,980, sank into insignificance.

These statistics of the development of the national debt show the importance of the duty undertaken by the companies in administering the debt. Hence arises the question of what this administration consisted, and what payment was made by the State for it.

4. THE DUTIES INVOLVED IN THE MANAGEMENT OF THE DEBT AND THE INDEMNITY PAID BY THE STATE.

The position of the companies varied according to whether the Government borrowed directly from them or only used them as intermediaries. In the first case they either increased their capital stock by the amount of the loan, i. e., they issued stocks, or the debt simply became

the property of the company, and was entered in their accounts among the outstanding assets. The interest on the loan was then reckoned as part of the income of the company, and, with the rest of the income, was divided among the shareholders as dividend. When the government debt led to the issue of stock, the interest paid was still reckoned as part of the income to be divided among the shareholders, but the price at which the stock was issued gave opportunity for profit. Hence for the individual the amount of the annuity paid by the State was not fixed, for this was paid in a lump sum to the company, and he only received a share in it because he was a member of the company. The market price of that part of the company's stock which owed its creation to a public loan was thus only indirectly determined by the state of public credit; it was also influenced by the other business relations of the company. The administration of these stocks was, however, subject to the usual business forms—registration of the names and capital of the holder in the books, transference at will, close of the books before the time for the payment of dividends, fluctuations in the dividends corresponding to fluctuations in business transactions, etc.

In the second case, when the loan was raised through the companies as intermediaries, the companies had no important influence; they could fix neither the amount of the subscription, nor that of the dividend. The latter was determined by the Government once for all, the former, in cases where it was variable, depended on the offers that were made. In the last resort, however, the

State, i. e., the Treasury, had to decide this. The procedure carried out by the companies in these cases was as follows: In the act of Parliament which authorized the loans it was provided that the cashiers of the company should receive subscriptions. They were instructed to pay the sum received into the Exchequer and to give an account of the same. The claims of the individual holders to shares in these loans were made negotiable at the office of the company and the money required for annuities or other payments was advanced to the head cashier from the receipt side of the Exchequer by way of imprest, and upon account. The books which related to the government stocks, and which were kept by the company, were managed exactly on the same principle as the company's own books. The account of the holder was credited with his share and debited with the sums withdrawn through transfers, redemptions, etc. The payment of dividends was managed as follows: At the date of payment a sum equal to half the annuity due on the shares payable through the company, was paid by the Exchequer to the company. The latter had now to make the payments to the different shareholders. Accordingly the books used for the registration of transfer were closed, the shares of each person were copied from them and written on a sheet of paper opposite the name of the holder. A dividend warrant was filled up for each holder, giving his name, his share in the capital, and the dividend due thereon. A dividend book was then made up in duplicate containing in alphabetical order the names of the holders and the other data. All these statements were verified by the officials at the Bank, and the warrants, if found correct, were signed by

one of them. The holders demanding the dividend wrote their names in the dividend book and signed the warrant, which latter signature was certified by an official. The warrants were then payable at the office. The warrants paid were entered in a cash and audit book and their amount was compared with that of the unpaid ones of which a list was made out of the dividend books. The total must equal the total annuity payable.[a]

The duty of presenting accounts on the receipt of the loans and the payment of the dividends existed until the end of the century, and alterations were made only in consequence of the Report of the Committee of 1780 on Public Accounts. Until that time all the accounts were presented to the auditor of imprest, who had to audit them. The fees for this audit amounted to £20,000, an unnecessary expense, since the payments were sufficiently controlled in other ways. The subscriptions to a loan were handed over to the Exchequer, where receipts were given for them and in whose accounts they appeared. The payment of capital and of the dividends was checked by the owners themselves, who could take legal means to enforce payment from the company should it refuse the same. Moreover, the presentation of accounts was not consistently enforced. The Bank had to send in accounts of all the money transferred to it from the Exchequer, as well as of the annuities due on its capital stock; the South Sea Company need only present them for the annuities of 1751, the East India Company not at all. But, according to the

[a] An account of the duties performed by the companies in their administration of the public debt is given in the 11th Report of the Committee on Public Accounts, 1780.

proposal made by the committee of 1780, the matter was so regulated that the companies presented no accounts on the disposal of the annuities on their trading stock, but only sent in a general account to the Treasury of all the government annuities paid through them, which account contained a statement of their receipts and payments in this connection and of the remainder of the dividends and shares still unpaid.

In theory the duties connected with the management of the public debt were simple enough, but the resulting expenditure of money and time by the companies was so considerable as to entitle them to an indemnity. It was not, however, till a century had passed that this was accepted as a definite principle. At first such payment was connected with the incurment of special expenses by the company for buildings, officials, servants, printing, etc. Thus as early as 1694 the Bank received £4,000 "toward the expenses of the House," and in 1712 the South Sea Company received £8,000 for the same purpose. The East India Company, on the other hand, was paid no indemnity of this kind until 1751, when it received £1,687, while at the same time its annuity was reduced from 4 to 3 per cent. A comparison between this "allowance for management" and the principal debt shows that there was no fixed proportion between the two. Each increase of the debt was accompanied by an increase of the allowance, voluntarily agreed upon, while a corresponding decrease followed any redemption of the debt. These alterations were not always stated in the acts themselves, the determination of their amount being left to the Treasury; as, for example, in the case of the East India Company when

the debt to it was transferred to the administration of the Bank, and so on.

In any case the compensation paid for the raising of a loan and for its administration rested on no systematic basis. It varied according to whether it was a question of raising an annuity or lottery loan or of the administration of annuities. For the receipt of subscriptions an indemnity was paid at first only to individual officials of the company, who were specially indicated (cashiers and bookkeepers). This was not determined by law, but was settled by the Treasury. Thus the chief cashier received £600 for the two loans raised by the Bank in 1714. From 1719 onward the amount was, with few exceptions, £805 10s. 10d. per million. For lottery loans it varied from £1,000 to £2,000. The annual indemnity for the administration of the annuities was also originally paid to the head cashier and the head bookkeeper. Thus the former received £650 and the latter £600 for the two annuities in 1714. For the million in 1726 a yearly sum of only £360 was paid, and that directly to the Bank ("for the use of the Governor and Company of the Bank of England"). In 1742 a yearly sum was again granted to the cashier and bookkeeper, and the Bank received nothing. The annual payment after the date of the consolidation in 1751 was, however, made to the Bank, and amounted to £562 10s. per million. Since this was reckoned according to the amount of the capital and not of the annuity, the terminable annuities were capitalized at twenty-five years' purchase and the yearly payment calculated on the resulting amount.

The allowance to the South Sea Company was £21,397 after the great consolidation in 1720, and £1,181 for the annuities of 1751, i. e., £562 10s. per million. This decreased in proportion as the debt was repaid.

The chief commissioners of audit made representations to the Treasury in 1781 with regard to the indemnity paid to the Bank, and proposed the establishment of an independent office for the administration of the debt, by which proceeding the expenses would be decreased by two-thirds. As a result of this an agreement was made between the Bank and the Treasury which was embodied in a treasury minute (legally confirmed by 31 Geo. III, c. 33). This fixed the sum for charges of management of all public debts administered by the Bank at £450 per million. Only two payments were excepted from this, the £4,000 which had been paid for the capital stock since 1694, and £1,898 3s. 4d. which had been paid since 1722 for the stock purchased from the South Sea Company. The payments for receiving the subscriptions to the loans continued at the rate of £805 10s. 10d. per million for annuities and £1,000 for lotteries. The South Sea Company received its annual payment undisturbed at the rates hitherto paid.

II. THE ADMINISTRATION OF PUBLIC MONEY AND THE BANK'S SHARE THEREIN.

The preceding account shows that the assumption of the management of the public debt by the Bank, the East India Company and the South Sea Company, respectively, was directly connected with the raising of government loans by these companies. There was no such point of

departure for the transference to the Bank of the work done by the pay offices. Owing to the peculiar way in which the debt was managed, the former change involved no alteration of the government offices. But the complete transference of the management of public money to the Bank necessitated a reform of the entire financial administration. The system of public payments forms part of a complicated process, in which three principal factors can be distinguished. (1) The collection of the public revenues and their distribution to meet the various public liabilities; this we shall call the transfer of funds. This process is controlled (2) by the power of disposing of the public revenue—the right of assignment. Finally (3) the system of public accounts and audit is concerned with every alteration in the public assets, whether through receipts or issues, in order to secure an economical administration of the finances and to prevent loss. The regular performance of these three functions is the duty of a special group of government departments. The transfer of funds goes on within the system of pay offices; the right of assignment is exercised by the administrative offices, and other independent offices are occupied with the presentation and audit of accounts. If a bank is to enter this group of coordinated authorities, it is clear, first of all, that there is only one of them, namely, the pay offices for the transfer of funds, whose duties it can undertake. The machinery of banking is unquestionably as well adapted to carry out the transfer of funds as are pay offices. But the extent to which the Bank can undertake this duty and the problem of organizing it to carry out its share of the work depend largely on the system of pay offices which it

replaces and on the principles according to which the transfer of funds is conducted. Both these matters, however, influence the development of the right of assignment and the system of audit. Theoretically these latter are not affected by the decision to employ a bank for transfers of public money, but in practice their form is dependent thereon. The alteration in the system of pay offices was combined in England in actual fact with a change in the extent and exercise of the right of assignment, at least as regards the persons ultimately responsible for the management of public finance, and in the system of public accounts and audit. In many cases the changes were only parallel reforms, but they were constantly connected, owing to the unity which always characterizes the administration of the public money.

We must consequently show, at least in the essential stages, how the principle of administration of public money by the Bank was introduced side by side with reforms in the associated departments of the financial administration. These occurred chiefly in the nineteenth century. Until nearly the end of the eighteenth century the financial administration remained unchanged, so far as concerned the organization of public money, of accounts, and of audit. We need here, therefore, only consider the state of things which has arisen in the course of the nineteenth century.

(1) *The central financial authorities.—The Treasury and the Exchequer.*

As early as the twelfth century England possessed a strongly organized central authority for the whole administration, instituted with the establishment of the Norman

feudal State.[a] The most important function exercised by this authority was the administration of finance. The receipts and issues were regulated by it, the former being concentrated in the public Exchequer, into which they were paid by the collectors; the accounts of those who had accounts to render were audited; financial disputes were adjusted. In the course of time the other branches of the administration were separated off, and the administration of the central finance alone remained and was carried on under the name of the ancient authority, the Exchequer. And this office, too, was split up, though much later, into a court of justice and departments of administration and of cash and audit. The Court of Exchequer was fully organized under the Tudors and after this time had only a formal connection with the financial administration. Administrative business left the Exchequer in the sixteenth century. Only the management of Crown property, which had been connected with the Exchequer from early times remained under its control. On the other hand, the authorities which were constituted to administer new branches of revenue were no longer included in the Exchequer. A clear distinction between the management of the receipts and expenditure, and the audit of accounts, was not made until the eighteenth and nineteenth centuries, when the enormous increase in expenditure necessitated methodical procedure, and the development of parliamentary control imposed responsibility.

[a] Described by Gneist, "Engl. Verwaltungsrecht," 1867, I, § 193; Reinhold Pauli, "Geschichte von England," 1853, Bk. II, § 136; both are based upon Madox "The History of the Exchequer," London, 1769 (2d edition); Thomas, "The Ancient Exchequer of England," London, 1845, from which the following account is also taken.

The original directors of this central authority were the treasurer, for all receipts and expenditure, and the chancellor, or "chancellor of the exchequer," as he was called to distinguish him from the lord chancellor, for accounts and audit. These officers may be regarded as corresponding to the *Händler* and *Gegenhändler* of the German treasuries in the middle ages. But owing to the position of the Exchequer and its connection with all other public business their importance far exceeded that of mere revenue officials. Hence as public business increased in extent they abandoned their close connection with the Exchequer, retaining only the ultimate control of finance as part of the administrative system which had passed into their hands. It is said that under Lord Burleigh, in the time of Elizabeth, the treasurer no longer appeared in person at the Exchequer, to manage the business there, but that his orders were sent in writing. We must regard this as the period when an independent office, the Treasury, developed alongside of the Exchequer for the management and conduct of the finance, while the Exchequer itself continued to be the head office for payments, accounts, and audit. The chancellor of the exchequer was originally, so long as both were connected with the Exchequer, an officer appointed to check the treasurer; but as early as 1434 he was designated "vice" or "under treasurer." He also, therefore, was transferred to the business of financial administration. Thus in the sixteenth century the Treasury appears as a ministry of finance, in contrast with the Exchequer, which was now a subordinate department for the management of public money and accounts. Only one idea is continu-

ously connected with the Exchequer, viz, that the assignments of the Treasury shall be checked there. The Exchequer is subordinate to the Treasury in regard to the appointment of its officials and the organization of its activities, but in one matter the two are on an equality. Disputes between them are referred only to the court of exchequer. On this single point depends at a later date the whole of the reorganization of the system of control.

In the Exchequer itself the business connected with the public accounts was carried on in two departments—the receipt side and the account side of the Exchequer.

The receipt side was the central public Treasury. Its duties were the receipt, the custody, and the issue of the public revenue. All receivers and collectors must periodically send their superfluous cash there, and thence, on the authority of a royal warrant or treasury order, the public money was transferred to the paymasters or actually paid out direct. Periodic accounts of the receipts and issues of public money were compiled there and communicated to the Treasury, so that the management of the revenue might be examined. The officers of the Exchequer were:

(1) The auditor of the receipt. This officer had replaced the treasurer, and his duties were "to keep the keys of the King's Treasury, which belong to the Treasurer in his stead, and to enroll the Receipts and Issues made in the Receipt, and to write the Tallies.[a] Thus in his department the warrants for payment were registered, the cashbooks were kept, and the accounts of the treasurer were compiled.

[a] Thomas, *loc. cit.*, p. 129.

(2) The clerk of the pells. This officer kept the books and acted as a check on the auditor. All business connected with the public money (assignment, receipt, and issue) was recorded by him.

(3) The tellers, the actual cashiers.

(4) The chamberlains, who had to supply the tallies used as receipts.

The persons hitherto named were the chief officers on the receipt side.[a] There was naturally, as time went on, an increase in the number of officers, but this of itself did not affect their position. A rise in the status of an officer may, on the one hand, be due to an increase in his duties or, on the other, to the fact that the head officer has acquired the right to appoint a deputy. Each of the above-named officers had a deputy at the end of the seventeenth century and perhaps even earlier. The actual duties of the office were transferred to the deputy. The office of treasurer itself arose in ancient times in such a manner. But no new functions were given to the individuals who thus freed themselves from their official duties. Their posts consequently became sinecures.

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[a] A more complicated organization grew up toward the end of the seventeenth and beginning of the eighteenth centuries owing to the development of the system of public debt. Thus in 1704 we find an exchequer bills office with a head and under officers, an annuity office with two departments—the bookkeeping office (three officials) and the pay office (five officials)—a malt and a million-lottery office, the former with four, the latter with three officials. These offices were created for certain special purposes and were really special pay offices. But they formed part of the receipt side of the Exchequer, i. e., a part of the public central treasury. They were not permanent. The exchequer bills and the annuity offices alone survived until the nineteenth century. These offices were originally intended to manage the whole of the exchequer bills and the annuity loans, but their duties were limited by the intervention of the Bank to, in the first case, the preparation of and payment of interest on the bills and, in the second case, to the management of certain annuities.

The examination into the expenditure of the public revenue was made on the account side of the Exchequer. The procedure, already described by Gneist, here took on a semi-judicial form, since the barons assembled as the court of the exchequer decided disputes on points of law which had arisen in the course of the financial administration, and swore in the officials who had to present accounts and must affirm them on oath. The charging and discharging of these public accountants and the examination of their accounts were the duty of a whole succession of officials representing the various audit authorities, before the matter came before the barons and was judicially decided. The system of accounting was, until the nineteenth century, extraordinarily complicated, and involved so many subordinate offices and special forms of presenting accounts that an examination thereof would be beyond the scope of this book. One distinction must, however, be noted here, since it has become important in connection with the further development of methods of audit.

In very early times the clerk of the pipe and the controller of the pipe, who assisted him and also supervised him, were the only officials who exercised a control over the expenditure. The former kept the great roll of the pipe in which the different accountants were charged with the sums debited to them, and after the presentation of their accounts were discharged. This discharge, by entering the *quietus est* in the pipe roll, could only take place with the controller's consent. These two persons were thus the only controlling officials and their competence comprised the accounts of the entire country, as is shown

by the division of the pipe roll. But as early as the thirteenth century the foreign roll appears alongside of the pipe roll. This roll obtained its name from the fact that in it only such entries were made as had not been already by custom assigned to the pipe roll. Thus in it were registered the accounts arising out of the collections and applications of the annual supplies voted by Parliament. It was kept by officials called "auditors." In 1547 another division was made amongst these officials, the audit of the accounts arising out of the administration of the crown lands being assigned to special auditors of the land revenue, while the auditors of the foreign roll were called "Auditors of Prests and Foreign Accounts," and later, "Auditors of Imprest." All these different offices, which were not subdivisions of a single head office but were independent audit authorities, continued to exist side by side in the eighteenth century. The auditors of imprest, however, became the most important, owing to the increase in the parliamentary grants whose application they had to control. This brought them into contact with Parliament itself, and when the organization of the system of audit was taken in hand, attention was first directed to them.

It can not be shown that there was, properly speaking, any dependence of the one side of the Exchequer on the other. But there was necessarily a close connection. The half yearly statement of accounts made by the auditors of the receipt formed the basis on which the entire audit and control of the account side was founded. The receipt side charged the accountants, the account side checked their discharge. The receipt side had to prepare

the wooden tallies used as quittances. When such a tally was used as a receipt for money paid, it was divided into two parts. The one, the foil, was given out; the other, the counterfoil, was retained. The collector in presenting his accounts sent in the foils as vouchers. The foils, if correct, must agree with the counterfoils. On each return made by the collectors, the chamberlains noted whether the foils belonging thereto were in order; then the return was sent to the clerk of the pipe or to an auditor. The close connection, formed by daily business relations, between the receipt side and the account side of the Exchequer, must necessarily have caused any alteration on the one side to be felt on the other.

(2) *The position of the receipt offices and the Exchequer.*

Until the seventeenth century the collection of the public revenue was managed by local administrative offices, such as, for instance, the self-governing bodies, the sheriffs, ministers, and receivers, and the commissioners appointed on one occasion or another, who were directly subordinate to the Treasury and in direct connection with the Exchequer.[a] As, however, the system of taxation developed during the seventeenth and eighteenth centuries, the formation of head revenue offices proceeded also, which offices were indeed under the Treasury, but could act independently within the limits set by acts of Parliament and regulations. The Treasury remained as before the head of the financial administration, but the duties were discharged by these head offices. They developed as a rule in proportion as the taxes when once imposed were

[a] Cf. Gneist, *loc. cit.*, Bk. I, p. 326 *et seq.*, p. 617; Bk. II, p. 781.

made perpetual, as the public expenses which were separately appropriated to separate heads of the revenue increased, and as the complexity of the forms of taxation demanded administration and no longer mere collection.

Thus in 1661 a board of commissioners was created to administer the customs, and these for the first time came entirely under the management of the State.[a] In a similar manner by 12 Chas. II, c. 35, the postal administration was reorganized and this culminated in the foundation of a general post office in London. In the same year the taxes associated together under the general name "excise," which had hitherto been only temporary, were now by 12 Chas. II, c. 23 and 24, voted for the lifetime of the King, and he was allowed to erect a head office in London for the better administration, collection, and custody of the receipts. Among the taxes afterwards administered by this office was the salt tax, imposed in 1694, the management of which was separated off in 1702 and intrusted to its own office, but in 1798 was again united with the excise.[b]

The taxes imposed in William III's reign—stamp tax, license for hackney coaches, house duty, tax on hawkers and peddlers—were each administered by a separate head office.[c] The land and malt tax occupied a peculiar posi-

[a] "The History of Taxes from William the Conqueror to the Year 1761." In ancient times the farming out of the customs was usual. A definite organization of the customs administration was not made until the century above referred to, by 12 Chas. II, c. 4.

[b] The salt tax was imposed by 5 and 6 Will. and Mary, c. 7. Its administration was separated from that of the excise by 1 Anne, c. 7, and was again united to it by 38 Geo. III, c. 88.

[c] The stamp tax was imposed by 5 and 6 Will. and Mary, c. 21, the tax on hackney coaches by c. 22 of the same year, that on hawkers and peddlers, etc., by 8 and 9 Will. III, c. 25.

tion throughout the century, being collected, in accordance with the annual vote, by receivers general for the different counties, who were appointed in each year by act of Parliament. This branch of the revenue, which later formed a basis for the income tax, was permanently organized only in 1797.[a]

The receivers general—the chief receiving officers in the different counties, under whom head collectors and collectors managed the local revenue service—were subordinated to the head offices. The local divisions of the revenue offices were naturally not alike for all branches of the revenue, but were formed according to the importance of the different sources of supply.

After the erection of special head offices for the administration of the different branches of the revenue, the receipts for the latter were accumulated first in their respective offices, and thence delivered to the Exchequer. In so far as the duties were paid in London itself, the head office served both as a receiving office for the local revenue and as an accumulating office which was in direct connection with the receivers general, who, in their turn, through the head collectors and collectors, accumulated the revenue collected in each county.[b] The interval of time allowed to the actual collectors in which to send their money to the receivers and to the latter in which to send it to the head office, as also the fees paid to the

[a] By 37 Geo. III, c. 35.

[b] The payment of the land tax and excise duties seems to have been the only exception to this clumsy method. In their case the act imposing the taxes provided that payment should be made to the Exchequer through the receivers. These direct payments ceased again however when it became common to use bills of exchange which could only be cashed at the head office.

different offices, was usually specified in the act ordering the collection of the revenue. To see that these regulations were carried out was the duty of the head offices and ultimately of the Treasury as controlling the entire financial administration.

The provisions with regard to the head offices which were made in the original laws establishing them, continued in force throughout the eighteenth century as is shown by the facts brought to light by the commission of inquiry in 1780.[a] The receivers general of the land tax and of the direct taxes, which were collected at the same time, must send the money for the land tax to London within twenty days of its receipt, and the money for the others within forty days of its receipt. In the case of the excise the interval varied according to the distance from London; it was twenty-one, thirty, and sometimes fifty or sixty days. The customs had to be forwarded immediately to the head office and no collector might keep more than £100. At the beginning of each week the head office transferred the receipts of the previous week to the Exchequer. The same procedure was followed in the stamp and salt offices. The hawker and peddler office paid into the Exchequer weekly, if it had accumulated more than £200. The hackney coach office paid in every three months, in case the receipts amounted to more than £1,000. The post office paid in £700 weekly and its entire balance quarterly.

After the end of the seventeenth century the revenue was no longer sent in coin to London. In 1696 the com-

[a] The first and second reports are concerned with the collection of the revenue.

missioners of excise ordered that no collector in the country should send coin if he could obtain a good bill of exchange.[a] This greatly simplified what had hitherto been a ceremonious transportation of money under the escort of armed men,[b] and the other offices probably soon followed this example.[c] Although no legal regulation was made, this form of transaction had already been generally adopted by the revenue offices at the time of the commission of 1780 and the succeeding years. As happened throughout the development of the English Exchequer, the independence of the individuals intrusted with the management of the public money led to the adoption by the public offices of the ordinary economic methods of exchange.

It does not lie within the scope of this work to enter upon a closer examination of the official rights of these authorities. It will suffice to call attention to one axiom which was of importance in the development of the Exchequer—that all its officials were absolutely independent in their application and employment of the public money. Each official had to give security depending in amount on that of the money to be received. He must present accounts of the receipts, and hand over within the legal interval the amount stated in the account, but there was no distinction drawn between his private property and the public money in his possession. When

[a] Announcement of the commissioner of excise. *London Gazette*, July 9–13, 1696.

[b] "Treasury Papers," 1697, Vol. XLVII, No. 8, and 1701, Vol. LXXIX, No. 66, contain statements of the cost of transporting money in this way: £7 6s. must be paid daily for a man and horse.

[c] In 1697 the collectors of a poll tax sent their money to London by bills of exchange. "Treas. Papers," 1697, Vol. XLVII, No. 8.

in 1711 the Bank of England petitioned the lord high treasurer to use his influence to induce the receivers to conduct their business with it, the treasurer applied to the commissioners and received the following answer: "The Commissioners will exhort the Receivers, which is all that can be done, since they and their security are answerable for all failures." [a] The object of the Bank was probably to get the business of exchange into its own hands, but pressure on the part of the superior authorities failed, owing to the independent responsibility of the receivers, with whom a large liberty must be left to deal as they thought fit with the public money, since the full responsibility for it fell upon them.

The natural effect of this axiom was that the receivers tried to keep back the money as long as possible and to use it to their own advantage. When an inquiry into the management of the public money was made in 1780 it was found, for example, that the receivers of the land tax had in their possession balances to the amount of £657,000 out of yearly receipts of £2,500,000. The alleged reason for this was the difficulty of obtaining good bills of exchange and the inadequacy of the pay, which according to the old rate was 2d. for every £1 collected. People were forced to use the money for their own purposes in order to secure a competence. [b] Besides, these balances also served sometimes to meet liabilities incumbent upon them.

The expenses which the revenue offices had to meet consisted partly in their own costs of management,

[a] "Treasury Papers," 1711, Vol. CXL, No. 4.

[b] First report of the commission of public accounts, 1780.

partly in expenditure authorized by law on behalf of other branches of the public service. The former were fixed by law or by royal order, and were allowed by the Treasury accordingly; in the latter case the act granting the money generally provided that the receipts of this head of revenue should be registered separately from all others by the revenue officers and should be regularly devoted to certain specified payments. This led to direct transactions between the different public services for which these payments were to be made and the revenue offices, which transactions must however always rest on a definite legal basis. Hence when the accounts of the revenue offices were audited on the account side of the Exchequer, the quittances for the money paid in to the receipt side had to be checked, and, in addition, the use made of the remaining money had to be inquired into and compared with the provisions of the corresponding act of Parliament. On the receipt side only the net receipts of the public revenue were accumulated.

The procedure there, which was of importance in regard to the transference of the business connected with the public money to the Bank, was based for the later period upon 8 and 9 Will. III, c. 28, 1698; but this act only confirmed in essentials the system in use from ancient times.[a] The different receivers of the revenue

[a] It is entitled: "An act for the better observance of the course anciently used in the receipt of the Exchequer." For the older procedure see Gneist, whose account follows Thomas's book referred to above. The actual administration during the eighteenth and at the beginning of the nineteenth century is described in detail in the "Report on the Exchequer," P. P., 1831, 431 and the "Return on Public Income and Expenditure," P. P., 1869, 336 I, p. 338 *et seq.*

paid their money, within the above-mentioned intervals of time, to one of the four tellers, each of whom was concerned with the receipt of a specified branch of revenue. The teller then sent a slip of parchment, the "teller's bill," upon which the amount received was specified to the so-called tally court. There the bill was received by the clerk of the pells and entered in his book of *introitus*, or receipt. A similar entry was made by a clerk of the auditors of receipt in the bill of the day. Finally a copy of the teller's bill was made by marking the name of the person paying in the money, the head of the receipt, the amount and the date, upon the tally. This certification of the payment (*solutum*) was called a tally of sol, and was given next day to the person who had paid in the money. At the end of the day the bill of the day was again sent to the clerk of the pells, who now entered all the receipts of the day in a cash book. The book called *Introitus* appears to have been a ledger, the entries in which were valid outside the office—e. g., at the audit of accounts before the Court of the Exchequer ("it is held to be evidence in courts of law")—the cash book was only for use in the office. It served as a check on the tellers, who had to account for the sums entered therein. The custody of the public money was intrusted to the clerk of the pells and the chamberlain (in later times to the auditor of the receipt) in conjunction with the tellers. At the end of each day the cash in hand was examined by them, or rather by their clerks, and compared with the amounts in the cash book. The teller had to render account by means of vouchers

(orders of bills of assignment regularly issued) of the way in which the difference had been disposed of.

(3) The right of assignment.

The receipts from all the heads of revenue were paid into one central treasury, but they were not regarded as a single fund, out of which money, as it came in, could be used for the public expenses without regard to the object of the payments. Each separate head of revenue was charged with definite payments, and the different subheads into which any head of revenue might be divided were regarded, either each by itself, or several together, as distinct funds. Thus, for example, the customs duties for one year were divided into no less than 74 subheads, according to which the receipts of the customs and the payments charged thereon were reckoned. Thus instead of one large balance in hand, there were a dozen, since the surplus under one head could not be applied to meet the deficit under another.

Attempts at consolidation began with the increase of the public debt, the receipts from various taxes being united to pay the interest and for the redemption of the debt. No less than six such funds were formed between 1697 and 1710. Their union into a single fund followed in 1715 and in this way all the payments arising out of the management of the debt were in some sort charged on a single fund. For in practice the separation in book-keeping of the receipts and expenditure had had the same effect as if there had been so many distinct funds. The system of separate funds was continued for the remaining branches of the public service until 1786, when the consolidated fund was formed.

Although the public money in the Exchequer was assigned in this way to different objects, there was only one authority competent to order its issue. As soon as the revenues are paid into the Exchequer the King alone can dispose of them, they become Crown property. The "King's taxes," the "King's revenue" are the expressions used in the laws. The King orders the issue of the money by means of the great seal or the privy seal,[a] warrants under which are sent to the treasurer, or rather to the lords commissioners, the chancellor of the exchequer, and under treasurer. The warrants are executed by the orders of these persons. Originally this was done by word of mouth, but since the office was put into commission it has been done by a written warrant signed by three or more of the lords commissioners. This warrant instructs the auditor of the receipt to issue an order of payment to one of the tellers. It refers to the royal warrant and states the funds out of which the money is to be paid. The oldest forms of these orders which survived till more modern times were called "debentures." They were payable at sight. In addition however to these there were orders of payment, which had to be signed at the Treasury again before they were honored and which, since Charles II's reign, must be accompanied by a letter of direction or issuing letter. The salaries of the officers of the Exchequer and payments made at the special direction of the Privy

[a] "These (great seal) are the methods whereby the King's pleasure is to be known for the issuing of money." (Speech of Lord Keeper Somers in support of his judgment on the Bankers' Case, 12 Will., III.) See Howell, "State Trials," London, 1812, vol. 15. This speech is celebrated on account of the learning with which it describes the history and functions of the Exchequer.

Council were excepted from this clumsy procedure and could be made on the authority of a simple warrant from the Treasury.

The King's liberty to dispose of the money in the Exchequer was limited after William's time owing to the appropriation by Parliament of the taxes voted, which appropriation became the regular procedure. In the disposition of these revenues the Crown had a definite commission to execute. "The Crown becomes a trustee either for the public uses and services to which the money is appropriated or for the interest of the public creditors who have a property in the several duties and revenues purchased by them upon the faith of public credit and the authority of acts of Parliament."[a] Hence a distinction grew up between the appropriated funds, the money voted for the service of the current year, and that voted for the expenses of the civil list. In the case of heads of revenue permanently appropriated for definite objects—e. g., for the redemption of debt—payment was made through the auditor without a royal rescript, on the authority merely of a treasury order citing the act of Parliament in question. The latter condition was often dispensed with in the cases, which were both frequent and important during the eighth century, where credit was employed. The individual creditors sometimes received a treasury repayment order when the loan was raised, or the obligation to repay was legally regulated and connected with the bills issued, without the intervention of the Treasury.

[a] Robert Walpole. "Draught of an Intended Vindication of Sir R. W. by Himself" in "Memoirs of Sir Robert Walpole," by William Coxe, London, 1788. Bk. III.

The issue of the money voted for the service of the current year was made by warrant under the privy seal, the warrant was kept within the limits of a possible appropriation and was executed by the Treasury.

The assignments for the expenses of the civil list were made in the form anciently in use, until the restoration, after which the procedure was shortened. Instead of continually making new orders under the great and privy seals for the regularly recurrent payments (expenses of the household, salaries of civil servants, etc.) the King issued rescripts in each of these forms which served as standing authorizations to the Treasury to assign money for certain heads of expenditures, or at any rate simplified the assignment. The provision of these letters patent dormant or privy seals dormant is usually one of the first ways in which the King exercises his authority. In the case of letters patent under the great seal the clause runs thus: the Treasury is requested to pay "such sum or sums of money as to you shall seem reasonable and fit to be allowed and paid in such cases"; in the case of letters of privy seal: "that you pay ——— such sum or sums of money for any public or particular uses and services as we by any warrant or warrants under our royal sign manual shall direct ——— to be paid." In the latter case a special order of payment from the King was also required, but it was supplied in the more convenient form of an order under the royal sign manual. Thus the Treasury had only an indirect right of assignment, whence the duty of the auditors of the receipt to see that its orders agreed with the royal warrant or with the act of Parliament. The importance of the royal right

of assignment diminished with the growing custom of appropriating the taxes as they were voted, and became eventually a formality which was preserved as part of the traditional fiction that the Crown alone has the right to dispose of taxes.

Hence a strict centralization of the system of payment was necessary and this constitutes the real importance of the right of assignment vested in the Crown, so far as it concerns administration of public money.

(4) *The administration of money by the pay departments.*

With the exception of the payments made by the collectors and receivers, all money was issued through the Exchequer. The issues consisted partly of actual payments, partly of the transfer of public money with a view to further employment and to be subsequently accounted for. To the first belonged part of the salaries of civil servants, pensions, royal bounties, and the payment of interest on, and the capital of, certain debts. To the second belonged the remainder of the payments to civil servants and all expenses for the army, the details of which were managed by the treasurer of the household, and the paymaster of the forces, respectively. The payments made to the household need hardly be considered in connection with the development of the administration of public money. Not only were they unimportant in themselves, but they received little attention. The civil administration was the business of the Crown, but Parliament undertook the administration of the army through its grants of the annual supplies. The moneys assigned to the purpose were "public moneys"

in the strict sense. The greater part of the public debt was incurred in this department and hence the management of the money devoted to it was, throughout the eighteenth century, the special object of parliamentary inquiry.[a]

According to the oldest Government balance sheet extant the issues for the *Custodia* of England in 1421 amounted to £46,286 out of total payments of £62,236.[b] In 1660 the proportion was £1,013,000 for army and navy, against £42,400 for other expenses.[c] During James II's reign the average for three years (1685 to 1688) was £1,111,839 for army expenses, £587,524 for other expenses.[d] In the first three years of William and Mary's reign (1688 to 1691) the army expenses were £8,957,299 as against £1,792,149 for the civil administration.[e] During the succeeding years and especially under Anne, the expenses for the army and navy became so heavy that, for example, in Anne's reign the average proportion was £5,591,329 : £749,656. These were war

[a] These inquiries began as early as 1666 when the first commission was appointed "to examine all accounts of those who have received or issued money for this war." In 1691 we find commissioners for taking the public accounts, out of which only the accounts of the army were subjected to an inquiry. Under the same title in 1701, 1703 (Paymaster Ranelagh expelled from the house), 1711 (impeachment of Marlborough), 1712 (impeachment of Robert Walpole as treasurer of the navy), 1713 (the commission of inquiry, of the previous year, into the accounts of the army, prolonged), 1726 (inquiry into the state of the public debt), 1746 (inquiry into the state of the land and marine forces). The most important of the committees appointed to inquire into the whole question of the administration of public finance were those of 1780 and 1797.

[b] Printed in Hatsell "Precedents," vol. 3, Ap. 3, also in Rymer's "Foedera," Vol. X, pp. 113, 114. The receipts were £55,754 10s. 10¾d, the issues £62,235 16s. 10½d.

[c] Cobbett, "Parliamentary History," 1806, vol. 4, p. 118.

[d] Cobbett, *loc. cit.*, vol. 5, p. 189.

[e] These and the following figures are taken from the annual public accounts given in the "Returns on Public Income and Expenditure" from 1688 to 1869.

years, but even after a long period of peace (1738) the proportion was still £1,780,000 : £880,000. This was the lowest point of the expenditure on the army and navy. After this it rose again, until toward the end of George II's reign (1760) it reached £13,500,000, as against an outlay of £1,150,000 on the civil administration. Under George III the expenditure on the army in time of peace was three times that on the civil administration, while in time of war the former rose to £20,000,000, £26,000,000, £28,000,000, and even £41,000,000, against £2,500,000 for the latter.

Most of the expenses for the civil administration were paid through the Exchequer. It can hardly be supposed that the treasurer of the household attained much importance in this connection. On the contrary the development of English financial management may be said to be influenced only by the procedure evolved in the administration of the forces combined with that which grew up in the Exchequer. The administration of the forces was early divided into the services of the army, the navy, and the ordnance. The votes in Parliament, as well as the assignments of public money for the administration of the forces, were made under these three heads. Each of these services had a head pay office which received from the Exchequer the portion of public revenue voted or otherwise assigned to the service in question, carried out the detailed expenditure, and rendered accounts for the whole amount. The three offices were that of the paymasters-general of the forces, that of the treasurer of the navy, and that of the treasurers of the ordnance. The pay offices of the two hospitals of Greenwich and

Chelsea were added to these in the eighteenth century. The principle of complete independence in the application and employment of the public moneys held good for the pay offices as well as for the receipt offices.

The charge of public money entailed the duty of rendering accounts, but the money passed into the possession of the paymaster who was charged with it, and he was only answerable for applying it in accordance with the acts of Parliament or with special instructions received. His whole property was liable for any neglect of duty. His heirs and legal successors inherited this liability and it only ceased when his accounts had been examined and discharged by the auditors of imprest and he had received his *quietus*. He was the accredited agent for the property of the State. He received his instructions by an order from the public authorities. He was discharged after giving evidence that he had carried out these instructions in accordance with the legal provisions and the established customs, public money was advanced to him in order that he might so carry them out, and for this money he had to present accounts.

It might happen that either the paymasters had to make good in case the proof of correct application were unsatisfactory or, on the other hand, that they might claim the repayment of money to themselves. They were allowed to make payments for which they had received no money but were not obliged to do so.[a]

[a] The position of the paymasters is described in the numerous Reports on public accounts already referred to, which were issued by Parliament in the course of the eighteenth century. The advantages and disadvantages of the system were brilliantly described by Burke, in a speech on February 11, 1780. Cobbett, "Parliamentary History," vol. 21, p. 1 *et seq.*

The paymasters were usually persons of high rank, members of the House of Commons or belonging to the leading families in the country. This gave some security for the exact performance of their duties. We shall, however, have occasion to notice later the dangers to public property which this system entailed. In general it may be said that the rule which prevailed throughout the English financial system of independent personal administration of the public money by the receipt and issue offices had the undesired result that people used for private ends the money which they were supposed to administer in the public interest. It was a temptation to the officials to keep large balances in order to enjoy the interest on them, and in this way the State was deprived of profit; moreover, the way in which the presentation of accounts was managed led to confusion and insecurity as to the position of the finances and resulted in actual loss.

In the eighteenth century the originally arbitrary assignment of the issues for the administration had already grown into a systematic division, according to estimates as between the different objects of expenditure, of the money voted in large sums. Estimates had indeed been made before[a] with regard to the internal

[a] Thus as early as 1433 the lord high treasurer, Ralph, Lord Cromwell, laid three "establishments" before Parliament "showing the particulars of the whole revenues and profits of the Crown with the charge out of them." Cobbett, "Parliamentary History," vol. 1, July 8, 1433. This was repeated frequently in the seventeenth century. Thus the lord chancellor presented estimates on June 18, 1625, which contained: (1) The estate the late King left. (2) The estate the King now stands in. (3) How it will be in the future. The last division is divided into 10 subdivisions, specifying the claims for unpaid debts, outstanding payments of subsidies, and the army. Cobbett, *loc. cit.*

objects of the financial administration, and the exact development of the whole system of accounts in the Exchequer points to their existence; but it does not appear how far they served as the basis for expenditure. From the time of William and Mary onward the votes in Parliament were, however, based upon estimates, and also the money so voted was assigned to the public offices in accordance with these estimates.[a]

The expenditure on the administration of the forces alone was the object of a special vote in Parliament, while for the permanent expenses of the civil service the Exchequer was supplied with permanent assignments; consequently the making of estimates and the subsequent division of supplies according to the establishments corresponding to these estimates were confined to the navy, the army, and the ordnance. The paymaster and treasurer made their claims to the Treasury in the course of the year on the basis of the establishments, in order that they might dispose of portions of the sums assigned to them. The Treasury obtained the royal warrant for this, and the payment followed according to the procedure of the Exchequer. The paymaster of the forces, until 1758, used to receive a third of the amount for the year every four months, subsequently he received from

[a] This is shown by the regular presentation of estimates and accounts to Parliament, which estimates are given, some by Cobbett, some in the reports of the commissions of inquiry referred to above. Thus Robert Walpole in his "Letter to a Friend Concerning the Public Debts, Particularly that of the Navy, 1712" (Lord Somers's "Tracts," Vol. XIII, "The Debts of the Nation, Stated and Considered"), says that in the case of the land service "estimates of the whole expense are given in to the Parliament; according to those estimates the respective sums are granted and pursuant to them establishments are made, regulating the whole expense of the army and subject to no alteration or enlargement."

time to time the sums required for payment. The treasurer of the ordnance obtained the money for the ordnance services every month.

The paymaster's claims, at least during the second half of the century, were accompanied by a statement of the special head of the service to which the money was to be applied and were examined by the auditor of the receipt to see whether the sum demanded by the paymaster was within the credit allowed him by the Treasury and whether the latter was in accordance with the parliamentary grant. But it was not within the province of either the Treasury or the auditor to inquire whether there was need for the transfer of the money at the time when it was demanded.

The way in which the money was assigned and accounted for may be examined more closely in connection with the pay office of the paymaster-general of the forces.

As soon as the supplies had been voted by Parliament the secretary for war sent various establishments to the paymaster-general of the forces. These stated the allotment of the sum voted among the various regiments, corps, and garrisons for officers and privates per day and year. At the same time a royal sign manual was obtained by the Treasury which authorized it to make over money from time to time to the paymaster-general, out of the money voted for the army by way of imprest, and upon account.

This sign manual was discharged by a treasury warrant and an order from the auditor of the receipt, and after it had been registered by the paymaster was deposited in the Exchequer. The paymaster was credited through the sign manual with the amount of the sum specified therein,

which, however, was only used through the intermediacy of the Treasury. He stated the desired amount and the object of expenditure to the Treasury, and received from it an issuing letter by means of which he obtained the money required. This continued until the credit was exhausted. Then a new sign manual was obtained, and so on. The last of the sums remaining out of the parliamentary grant was issued under a privy seal which contained in addition a confirmation of all the sums previously received. Provided that the stated objects of expenditure corresponded to the establishments, the Treasury raised no objection. The paymaster kept a cash book in which were entered all the sums received from the Exchequer and any other receipts (profits from bills of exchange, deductions from salaries, etc.). He rendered accounts of the expenditure which he had made, which accounts were kept separate both for each object of expenditure and for each year. Payments were made on the basis of the accounts until the sum voted for that particular object was exhausted. The accounts referred to the payments made "for the services of the year," not for those made during the year. Thus, with each year fresh accounts were opened and the former ones lapsed. A paymaster's accounts were, however, never completely discharged *unless either the total sum allotted to him had been expended or the object of expenditure no longer existed.* The payments on his accounts continued even if he were no longer in office. Hence he and his family retained the balance of cash for years and were also permanently accountable and liable for millions.

It was the same in the other pay offices. In the pay office for the navy the balance was further increased by the fact that the money which was assigned to each separate object was kept distinct. Hence there might be a surplus in one case, while another object for which there was temporarily nothing assigned that was available remained unprovided for.

Moreover it was an old custom of the Exchequer, based on an act of 51 Henry III (1266), that no one should be received to account until the accounts of his predecessor had been discharged.[a]

Suits between the paymasters and their subaccountants, inevitable difficulties of collecting the vouchers for accounts of payments which had to be made in all parts of the world, and the slow procedure in the Exchequer itself, each delayed the examination of accounts, so that the liability of the paymasters often continued for decades after their retirement, and throughout this time they were obliged to have some balance in hand to free themselves and their families from continual fear of a claim for compensation.[b]

The commission of 1780 demonstrated clearly that the public money was not managed in accordance with public interests. Although its reports were at first only a state-

[a] The act runs: "That when a sheriff or bailiff hath begun his accounts, none other shall be received to account until he that was first appointed hath clearly accounted and that the sum has been received." (Burke's speech on financial reform, Feb. 11, 1780.) Cobbett *loc. cit.* vol. 21, p. 1, *et seq.*

[b] Thus the elder Pitt, Earl of Chatham who had retired from his office of paymaster-general of the forces in 1755, in spite of strenuous efforts and the prestige of his subsequent position as minister, only received his *quietus* thirteen years later. (Fox, speech in Parliament, June 11, 1781.) Cobbett, "Parliamentary History," vol. 21.

ment of facts which the officers of the Treasury must have known anyhow, they became ultimately the basis of all reforms in the management of the public money and accounts.[a] The account given in these reports of the relation between the pay officers and the administration of the public moneys corresponds with what we have already stated in general form, and this is illustrated by the following examples:

Lord Holland, who had resigned his office of paymaster general of the forces in 1765, had received £64,000,000 during his time in office. In consequence of the payments which continued to be made on his accounts after his resignation, the auditors of imprest did not examine these accounts until 1776. In 1780 they were still undischarged and since he had died meanwhile, his heirs were liable in his stead. The average cash balance in his possession amounted to £450,000. The interest on the balance which remained in his hands after his retirement was reckoned at £250,000. His four next successors, who meanwhile had themselves retired also, could present no accounts until his were settled. The profit from interest—i. e., the loss to the State—on their balances was estimated at £290,000. Paymaster Rigby, who had held the office since 1768, had had in hand since this time an average balance of £453,000. For shorter periods larger sums were of course held, thus Rigby during the last nine

[a] The commission as appointed by Lord North was non-parliamentary. Burke, however, praised its reports thus: "As pieces of literary composition he never saw style and manner so happily united to a subject—clear, correct, nervous, and intelligible." After Lord North's fall the commission was strengthened by parliamentary members and became the chief stimulus to financial reform.

months had had on the average £870,000. In the pay office of the navy the payments and accounts of four treasurers were still running on together. The first of these had come into office in 1759, so that the accounts for twenty-two years remained unsettled and the balances were still in the hands of the respective paymasters.

In the case of accounts which were examined so long after the payments had been made it was often out of the question to obtain proof of such payment. Large sums had to be noted as unaccounted for and payment enforced by legal means if the Crown were not to suffer loss. Thus since 1720, £473,000 had stood to the account of the Earl of Lincoln as paymaster general of the forces. There was, however, nothing in the Exchequer books referring to the payment of the sum nor had the heirs any evidence of payment, and they indeed declared and proved that they had received nothing. Viscount Falkland, treasurer of the navy, or rather his legal heirs, had been £27,000 in arrears since 1689. It may well be understood that awakened public opinion regarded the great paymasters as "robbers" and "plunderers," "enriching themselves with the spoils of the people."[a] The evil was not remedied until the administration of the public money was transferred to the Bank, and it was one of the causes which combined to bring about such a transference.

[a] Robert Walpole had complained that people spoke of the "publick ministers" in these terms. "Draft of an Intended Vindication of Sir Rob. Walpole," by himself (Walpole Papers in Coxe, "Memoirs of Sir Robert Walpole"). Particularly serious accusations were made against Lord Holland "the grand defaulter of unaccounted millions." See the parliamentary debates for March 8, 1780. Cobbett "Parliamentary History," vol. 21.

(5) *The transactions between the public offices and the Bank.*

Owing to the entire independence of the public pay offices as regards the expenditure and application of the public money, no connection between the administration of public money and the Bank was possible except by a radical change in the principles on which the offices were managed. The first step was to unite the public treasury with the Bank. Such a policy had not been foreseen when the Bank was founded. Nor were any legal measures taken for the purpose during its subsequent existence. It must be remembered that such an alteration in the financial administration signified the abolition of the Exchequer. The procedure of the latter was indeed complicated and its business methods difficult, but its customs had grown up in the course of centuries and use made them appear a safe method of administering the public finances. The right of the Crown to dispose of the public revenue, the entire system of account keeping, and in particular the system of borrowing, were closely connected with this procedure, which was moreover bound up with the management of the different offices in the Exchequer; hence the abolition of this central treasury and the creation or remodeling of a single large bank depot was impossible. Such vigorous reforms, which destroy what is customary at a blow, have never been undertaken by the English Government at any time or in regard to any department of the administration. Moreover, the Government was least of all likely to contemplate a reform of its financial system at the time when the Bank was founded, a time when every effort was needed to maintain a financial system, which was threatened with chaos by the currency

reform and the overburdening of the public revenue by floating debts. The existing connection between the Bank and public finance is thus a gradual growth, bound up with the different changes made in the business methods of the Exchequer and with the development of the management of public money by the receipt and issue offices. And when the time came to regulate this connection by act of Parliament it was merely necessary to give legal sanction to a relationship which had already grown up in fact.

The Bank had indeed been early concerned with the carrying out of public monetary transactions. Its concern was, however, at first, not with the Exchequer but with the receipt and issue offices. These offices endeavored to make profit out of the government money which they had in hand so long as it was under their control, and hence it was natural that they should look around for a bank with which they could deposit the money. The Bank made various efforts to secure these private deposits of public money. It repeatedly requested the Treasury to influence the paymasters and receivers to keep their cash with it.[a] In December, 1711, it complained that "Some public offices kept their cash with others and not with the Bank, and that the greatest part of the receivers transacted their affairs in other places, which ought to cultivate a good understanding with the Bank from the frequent services done them."[b] The services thus

[a] "Treasury Papers" (record office), Vol. CXVII, 23. In 1709 it granted an advance to Sir Henry Furness, the paymaster general of the forces, but begged him to keep his cash with it. In 1712 the same thing happened in regard to the treasurer of the navy. "Minute Book," Vol. XVII, p. 121.

[b] "Treasury Papers," Vol. CXL, 4.

referred to, apart from the large advances made to, and the loans which the Bank raised for, the Government, are no doubt the advances which it made to the different offices. The "Treasury Papers" record numerous instances of such loans, which were made by the Bank, on security of the usual bills, to the offices of the paymaster of the forces and the treasurers of the navy and ordnance. According to the records extant, these were in some cases made through the Treasury, which negotiated with the governor of the Bank.[a] In other cases the paymaster, after having applied to the Treasury, received from it an order to hand over to the Bank a number of the bills issued by the Exchequer and to receive from it the sum required.[b] The interest was agreed upon for each case separately;[c] and the amounts were regularly repaid in a short time, with interest. It sometimes happened that the Bank refused an advance of this nature.[d] The Treasury and the Bank were completely independent of one another.

During the eighteenth century the connection between the Bank and the public offices grew continually closer. It was, however, not the only financial institution with which business was transacted. The elder Pitt for example, when he was paymaster general, kept his cash partly with the Bank of England, partly with other banks.[e] But it is noteworthy that all other banks were known as "private" banks. And when in 1781 the renewal of the

[a] As in both the cases quoted.

[b] "Treasury Papers," 1709, Vol. CXLVII 7; 1711, Vol. XLVII, 7.

[c] In 1712 the rate of interest was 6 per cent and corresponded to the current rate on the public debt.

[d] "Treasury Papers," 1706, Vol. XCIX, 58; 1709, Vol. CXIV, 26.

[e] Fox, Speech in House of Commons, June 17, 1781 (Cobbett, "Parliamentary History," vol. 21).

Bank Charter was discussed,[a] Mr. Ewer, the governor of the Bank, was able to say that "the public were by far the best customers the Bank had." Its credit, its power of accommodating government, arose solely from its being the cashier of the public.[b] Lord North called the Bank "the public exchequer." But it was expressly stated that although nearly all the paymasters kept their cash at the Bank, they could at any moment withdraw it and place it with a private banker. The Bank acted merely as a banker and the relation between the public offices and the Bank was no more than that between a private person and his banker.

But by this time it had relations with the State which were not confined simply to the deposits of cash by the receipt and issue offices. At the beginning of the eighteenth century the use of bank notes as currency had become a universal practice. The Exchequer, or rather its cashiers, the tellers, found themselves in possession of a large number of these notes every day. They were, however, liable for the balance of their money in cash, and hence were obliged to present these notes immediately to the Bank, in order either to obtain cash, or to be assured that the notes were genuine. Possibly the receipt for a payment in notes was not given until such assurance was received. On the other hand the custom had grown up, as early as the second decade of the eighteenth century,

[a] Cobbett, "Parliamentary History," vol. 22, debate of June 13, 1781.

[b] According to the statement of the commissioners on public accounts the following kept their cash with the Bank at that time: customs, excise, stamp, post and salt offices, the various receivers of the land tax, the paymaster general of the forces, the treasurer of the navy, and the treasurer of the ordnance. Sixth report, 1781, Ap. 68.

owing to the adoption as a form of currency of government paper credit—the exchequer bills—of anticipating the receipts of certain taxes (land tax, malt tax, sugar duty) by an advance from the Bank on the security of such exchequer bills, which advance was paid back as the taxes came in. In return for bank notes or coin, a corresponding number of exchequer bills were given back. In time also the Bank had other claims, for the payment of the interest and the management of the public debt owed either to itself or to other creditors, and for the cashing of bills of exchange, etc. The paymasters who kept their cash with the Bank had the money transferred to it; the receipt offices which had deposits there or had bills of exchange on it, drew money from it. Hence it was the center of a great part of the system of public payments, each stage in which (unless it was a payment from a paymaster to a private individual third person) had to be notified to the Exchequer, in order that the book entries which were needed for the public accounts might be made. In this way business relations grew up between the Bank and the Exchequer which for a later period (the end of the century) are described as follows:[a]

One or more clerks from the Bank are in daily attendance at the Exchequer. The person paying in the money deposits it with one of the bank clerks, from whom he receives a ticket stating the receipt, the name of the person paying in the money, and the head of revenue upon which

[a] "Journals of the House of Lords," Vol. XLI (36 Geo., III) p. 196. Inquiry into the loans made by the Bank to the Government. Interrogation of the head cashier of the Bank. "Report of the Commissioners of Public Accounts, On the Exchequer," P. P. 1831, 313. (Evidence of different officers of the Exchequer, of the revenue offices, and of the Bank).

it is paid. This ticket he takes to the teller's office where he himself registers the payment in a book. This entry is checked by the teller and compared with the ticket, a copy of which he then sends to the tally court. If the person paying in the money has an account at the Bank he previously obtains from the latter bank notes, rendered unusable for ordinary circulation, for sums of £1,000 each. At the end of the day a reckoning is made by the tellers and the bank clerks, the payments to be made by the Bank are compared with the money received and the difference is paid. This payment is likewise made with these "cancelled" bank notes if it exceeds £1,000. Exchequer bills for a like amount can also be used. Small sums are paid in coin. When the Bank has a larger payment to make to the Exchequer—e. g., in consequence of a loan—this too is made with these cancelled bank notes or with exchequer bills. These were only pass tickets which were transferred hither and thither as evidence of credits or debits, and to serve as a visible basis for the entries at the Exchequer. Hence, the transactions in coin at the Exchequer were very small. In 1797 they amounted to between £50,000 and £60,000 a day.

It is most probable that this procedure was established long before the time when the Bank legally took over, or rather was charged with, certain receipts and issues. The report of 1797 speaks of it as existing "time out of mind," and that of 1831 remarks that: "For nearly a century the Bank of England has sent down to the Exchequer persons duly authorized to examine and receive its own notes." Also 9 Anne, c. 7, 1710, provides that exchequer bills, not exceeding 50 in number, shall be issued for £5,000 each;

which bills "shall be current only as payments between the Exchequer and the Bank of England." It may indeed be supposed that these payments were only made on account of the loans which the Bank had at that time already begun to raise, and of the obligation of the Government to pay interest to the Bank and to cash the short-date bills which were in the latter's possession. As early as 1710 the Bank raised a lottery loan for the Government,[a] and the floating debt which was paid off in the course of the year amounted to over £3,000,000,[b] for a large part of which the Bank was certainly the creditor.

The current payments into and withdrawals from the Bank on the part of the receipt and issue offices may thus have grown out of the kind of financial transactions which arose between the Bank and the Exchequer owing to the system of raising loans; and this to an increasing extent as the Bank came to act more and more as a depository of cash for these offices. But when most of the actual payments were undertaken by the Bank it seemed natural not to give the money to the tellers merely in order that they might hand it over to the Bank after they had subtracted from it the balance required for their own use, but rather to pay it direct to the Bank, which made payments for the tellers and reckoned with them. Probably, however, the old relation was maintained. Exchequer bills, and, later, bank notes, were kept in the tellers' chest, corresponding to the sum which stood to their credit at the Bank; and if the Exchequer had a payment to make, it did this in fact by handing over to the Bank such bills or notes.

[a] 8 Anne, c. 4.
[b] Cf. "Ret. Nat. Debt," p. 4.

Perhaps the exchange of exchequer bills and bank notes may be traced back directly to the fact that the Bank was originally a creditor of the Government. It possessed the government bills. If the Government received money it gave it to the Bank and redeemed its debt. Later, when the Bank received payments, it became the debtor of the Government. It gave up its notes, and if the Government made a payment through it the notes were returned.

The date when this change occurred can not be determined. Between 1710, when the first large issue of exchequer bills took place, and 1780, when the procedure was fully developed, seventy years had passed during which the Government had entered into the closest connection with the Bank, mainly through the development of the public debt. The reason why no legal regulation of the administration of public money was made during these years may be that this administration had grown to a desired simplicity through the freedom of action allowed to the pay offices. It is true that the management of the public money was not legally handed over to the Bank, but the tellers had in fact transferred their chest to it, and managed their payments through it. The great paymasters had done the same thing. The final step which the Government had to make was to declare that all such deposits in the hands of the Bank were *public* deposits. The transformation of the Exchequer into a mere *office for keeping accounts* and of the offices of the paymasters into mere offices for *assignment*, necessarily followed from this.

PART III.

THE LEGAL DEVELOPMENT OF THE RELATIONS BETWEEN THE BANK AND THE ADMINISTRATION OF THE PUBLIC DEBT AND PUBLIC MONEY.

I. THE BANK AND THE ADMINISTRATION OF THE PUBLIC MONEY.

(1) *The reforms in the administration of public money between 1780 and 1834.*

The financial disturbance due to the American war and the bad administration of the North ministry led toward the end of the eighth decade of the eighteenth century to a general demand for a reform in the expensive and insufficient financial organization, especially with regard to the Exchequer and its dependent treasuries. Burke gave eloquent expression in Parliament to this need in a speech on February 11, 1780, and expanded his statement into a scheme for an important financial reform.[a] Most of the reforms in financial administration which were carried out during the next fifty years owed their origin to this. Burke's project made appeal for a simplification of the Exchequer and of the highly paid offices connected with it, which offices had become mere sinecures; for parliamentary control of the civil list, and the introduction of definite heads of service for the civil administration; for the appropriation of funds for that portion of the civil administration which had not hitherto been under parliamentary control; and for a reform of the pay offices of the army and navy. In describing the latter he referred to the relations of

[a] Cobbett, "Parliamentary History," vol. 21, p. 1 *et seq.*

the paymaster and treasurer to the Bank. The method of assigning money to the paymaster of the forces and the treasurer of the navy must cease since it injured the State and unjustly enriched private persons. The money must no longer be paid to them but to the Bank, and they must make their payments, with the exception of those for small expenses, by drafts on the Bank. Both Bank and pay offices must keep accounts which were to be made up and audited at the end of the year. The balance remaining was to be carried over to the next year, and when a paymaster retired, was to be transferred to his successor. In return for the profits made out of the employment of the public money the Bank must undertake "the charge of the mint" and "the charge of remittances to our troops abroad." If the Bank would not consent to this the Treasury was to negotiate with any other banker of repute. "There is no banker, who will not be at least as good a security as any paymaster of the forces or any treasurer of the navy, that has ever been banker to the public."

The "establishment bill," which embodied these reforms, was thrown out by Parliament. But it led at any rate to the appointment of a commission to inquire into the financial administration, and after Lord North's fall in the following year, the new ministry, in which Burke was appointed paymaster of the forces, began, although very cautiously, to carry out reforms on the basis of the report of the commission.

The Exchequer was first dealt with. Here the chief advantage of the reforms was not a change in organiza-

tion, but the fixing of definite salaries.[a] In 1783 the office of chamberlain was suppressed, and it was provided that instead of tallies, the auditor of the receipt and the clerk of the pells should give indented cheque receipts.[b] Two years later the audit office of the auditors of imprest was abolished and in their stead commissioners for auditing the public accounts were appointed, whose duties, though no more extensive, were definitely organized.[c] Otherwise the receipt side of the Exchequer continued to exist for some decades, with all its formalities, and with the fiction that the government money was collected in its chests, although in actual fact the tellers' chest had been transferred to the Bank.

The moneys of the paymaster general of the forces, on the other hand, were transferred to the Bank in 1783,[d] and this was soon followed by a similar change with regard to the navy and ordnance offices. From this time onward each pay office had an account at the Bank through which sums were made over to it and out of which its payments were made. But the conditions under which Burke had proposed to hand over the administration of public money to the Bank were never imposed.

[a] The incomes of the persons holding offices in the Exchequer had reached an unexampled amount, which was made up almost entirely from fees. Thus in 1780 the auditor had £19,930; each of the tellers, £9,954; the clerk of the pells, £9,543 ("6th Report, Com. Publ. Acc.," 1780). On the account side the income of an auditor, for example, amounted to £15,000 a year ("8th and 12th Rep."). The actual work was done by the deputies of the officers mentioned. The officers were deprived of the right to appoint deputies by 23 Geo. III, c. 82, by which act also fixed salaries were assigned to them.

[b] 23 Geo. III, c. 82. The tallies were not finally abolished until the retirement of the last chamberlain in 1826.

[c] 25 Geo. III, c. 52.

[d] 23 Geo. III, c. 50.

No profits accrued to the Government, neither was any indemnity demanded by the Bank. The Bank was still making the same tacit use of the deposits when, in 1806, its relations with the receivers-general were definitely regulated.[a] The excise, stamp, post, and customs offices were ordered to pay into the Bank all moneys received by them, with the exception of small sums, fixed in amount by law, which might be retained for current expenses. The account of each office was kept in the name of the receiver-general concerned, who alone could dispose of the money. This act also recognized to some extent the custom which had grown up in the practice of the Exchequer of making fictitious transfers from the public treasury to the Bank. The payments of the balances in the bands of the receivers into the Exchequer was continued, but the act expressly instructed the receivers-general to draw out the money at the times specified in the instructions—i. e., to receive "cancelled bank notes," and to pay these into the Exchequer, or, as it might happen, to hand them over to the bank clerk attending there on behalf of the teller. The clerk brought the notes back again to the Bank. In spite of its complexity this procedure continued unaltered until 1834.

During the period which elapsed between the regulation of the receipt and issue offices and the transference of the public treasury to the Bank a custom arose, which was due partly to the concentration of the revenue at the Bank, but whose original cause dates from a much earlier time. This was the organization of those loans from the Bank to the Government which were intended to

[a] 46 Geo. III, c. 75, 76, 83, 100.

cover temporary excess of expenditure over income, arising during a given financial period, when the total expenditure during this period was covered by notes of supply. Even in George II's reign it had become usual for the Bank to place each year at the disposal of the Treasury, to be used as required and when convenient, a sum in anticipation of the land and malt taxes, which sum was specified in the act granting these taxes and was advanced on the security of exchequer bills; it was paid off in the course of the year as the receipts for these taxes came in. The annual renewal of the taxes and of the authorization of this loan from the Bank made this running credit allowed to the Government at the Bank play an important part in the administration of the public moneys, and the more so considering the amount of the receipts from the taxes. This credit did not, however, afford the security of a regular cover for any cash deficit that might arise. The formation of the consolidated fund in 1787 was of importance in developing a relation of this kind.

The disadvantages of the system of separate funds had been pointed out in 1785 by the commissioners of public accounts, who had suggested the formation of a single fund into which all the public revenues should be paid and out of which all public expenses should be met.[a] This proposal led to the formation of the consolidated fund by 27 Geo. III, c 13. A portion of the permanent taxes was united under this name and was earmarked for permanent expenditure, such, for example, as the interest on the public debt. But the receipts covering

[a] 13th report.

the civil-list expenses were still kept distinct as was also the revenue from taxes voted annually. The receipts forming the consolidated fund might only be used for the purposes to which they had been expressly assigned by Parliament. With the exception of the interest on the public debt these were mainly the payment of pensions and of such expenses of the civil service as were not already provided for in the civil list. The distinction between those expenses of the civil list which concerned public administration and the personal income allowed yearly to the sovereign, the civil list in the continental sense, was first made in 1830, at which date these expenses were already charged upon the consolidated fund. From this time onward there remained only the fund and the annual supplies.

When the consolidated fund was formed it was chiefly applied to meet quarterly expenses of a permanently recurring type. The act establishing it provided that, at the end of each quarter, no money was to be issued from the fund until a sufficient sum had been set apart to cover the specified quarterly charges. It was hoped in this way, as far as possible, to retain the receipts assigned to make up the fund until the end of the quarter. Should there be a deficit it was made good out of the annual supplies for that year. A surplus was "applied in the first instance to replace advances to make good the deficiency of a previous quarter, and then as Parliament might determine." This system had the serious disadvantage that "the surplus income of one quarter could not be made available to cover the deficiencies of a previous quarter until the termination of the quarter in

which such surplus might arise."[a] This defect was remedied in 1817 by 57 Geo. III, c. 48, which act authorized the Treasury to cover a deficit in the consolidated fund by borrowing from the Bank on the security of exchequer bills. These exchequer bills, usually called "deficiency bills," were paid off in the course of the quarter in which they were issued, being discharged by degrees as the revenue forming the fund was paid in.

A similar plan was adopted to cover any deficiency that might arise in the supplies voted yearly—the ways and means. The malt and sugar taxes which were voted yearly had for a long time been assigned to this purpose, and "it was the practice to include in the act granting them a provision for raising money by the issue of Exchequer Bills charged upon these duties, and thus to provide funds for making good any temporary deficiency of these Ways and Means to meet current Supply charges."[b] These so-called malt or sugar bills could then be used to meet a temporary deficit. This practice was altered in 1830. An act, 11 Geo. III, c. 2, then provided that a sum should be assigned out of the consolidated fund as "Ways and Means for the Service of the year," on such a plan that exchequer bills might be issued up to the amount so assigned and might be "charged on the growing produce of the Consolidated Fund in the next succeeding quarter to that in which they were issued." The Bank of England was authorized to make such loans to the Government, from time to time, as the needs of the supply services required and the exchequer bills were

[a] "Report on Public Income and Expenditure," 1869, 366, p. 519.
[b] Ibid., p. 520.

handed over to the Bank, which advanced the necessary sums. These ways and means bills resemble the deficiency bills, "except that they were made payable out of the growing produce of the Consolidated Fund in the following quarter, and the money raised upon them was applicable to Supply Services only." Their issue has continued since 1830 in the way described.[a]

These temporary advances from the Bank to the Government appear in the form of an unfunded debt. Had they been nothing further they could not claim much importance. But they differed fundamentally from the other temporary loans which the Bank made to the Government at the end of the eighteenth and beginning of the nineteenth centuries. They can not be looked upon merely as unfunded debt. The reason for their existence is to be found in certain operations in the management of the public moneys, which were regularly carried out in this way. They led to organized and regularly recurring transactions between the Bank and the Government, which transactions prepared the way for a complete transference of the management of public money to the Bank.

(2.) *The union of the public treasury with the Bank (1834).*

Notwithstanding the attempts to reorganize the special offices and various points in the managment of the public money, the Exchequer itself, although the object of repeated complaints, had undergone no complete reformation. Its existence was no longer justified. Its actual

[a] For the arrangement of these advances from the Bank to the Government cf. "Report on Public Income and Expenditure," 1869, 366, 1, pp. 519 and 520.

functions were to direct the Bank to transfer public money to the paymasters, or to carry out such payments as were, in accordance with custom, made by it; to check the assignments made by the Treasury, and to keep the public accounts, though it did not audit the returns made by the accountants, which business had been intrusted to a separate audit office as early as 1786. These functions required no such official apparatus and complicated procedure as were still retained. During the thirties this gave rise to continual demands for changes. In 1830 a commission was appointed to inquire into "the charges of managing and collecting the Public Revenue," and this was followed in 1831 by a commission to "examine into the practice of the Exchequer with respect to the Receipt and Payment of the Public Money and the mode of keeping the Accounts thereof."[a] This latter commission presented its report in the same year.[b] Its proposals became law and the receipt side of the Exchequer was entirely remodeled by 4 Will. IV, c. 15 (May 22, 1834).

The offices of the auditor, the clerk of the pells, and the tellers and the "offices subordinate thereto" were abolished, compensation being paid to those holding them at the time, and the public moneys were to be paid into the Bank to the account of the Exchequer. The former exchequer staff was replaced by the following officers:

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[a] Thomas, *loc cit.*, p. 29.

[b] The minutes of evidence, documents, and proposals of the commission appointed on July 8, 1831, are contained in the "Report on the Exchequer," P.P., 1831, 313.

(1) The comptroller-general of the receipt and issue of His Majesty's Exchequer. The comptroller had an assistant comptroller and various other officers under him. He exercised the combined powers of the auditor and of the clerk of the pells. He kept the books and records referring to the receipts and expenditures. All orders for issuing public money must pass through his hands and be registered by him. He must satisfy himself that such orders were in conformity with the royal order or with the parliamentary grant. He had direct control over the exchequer account at the Bank, and presented accounts himself to the Treasury.

(2) The Bank of England. The Bank undertook the duties of the tellers. It received the public moneys and managed the issues under the warrant of the comptroller. It was responsible to the comptroller and to the Treasury.

(3) The paymaster of the civil services. A single paymaster was appointed by the Treasury to make such payments as had hitherto been "payable in detail at the Exchequer," viz., salaries, allowances, pensions, etc. These payments were all connected with the civil service, since the army already possessed its own paymaster-general. The paymaster of the civil services and his subordinates had no independent position but constituted a department of the Treasury.

The principles adopted for the management of the public money were as follows:

(1) All moneys payable to the Government were paid into the Bank either directly or through the intermediacy of the receivers.

(2) All public money held by the Bank was to form a single fund known as the "account of His Majesty's Exchequer." But separate accounts were to be kept for the public offices corresponding to the separate services.

(3) The exchequer account was available to the comptroller-general only and he employed the same on the receipt of warrants from the Treasury, which warrants must rest either on an order under the royal sign manual or a grant of Parliament.

The paying in of money was accompanied by duplicate specifications or statements of the particulars thereof, which had been countersigned by the comptroller. One of these duplicates was signed by the cashier receiving the money for the Bank, the other was retained by the Bank. At the close of the day the Bank transmitted the specifications received to the comptroller, and sent a copy to the Treasury as a statement of the money received by it, the issuing of which was now managed by a new method of assignment.

The distinction between appropriation, supply, and civil list services had already been simplified, through the formation of the consolidated fund, into a division between the expenses charged to this fund and those not so charged. But when the old exchequer offices were abolished and the comptroller-general was appointed, the method by which this assignment proceeded was changed. The issue of money for the consolidated fund services was made by the Bank on the authority of an exchequer warrant from the comptroller-general, who was in his turn empowered by a treasury warrant referring to the act of Parliament by which the expenditure in question was assigned to the

consolidated fund. The assignment of money for the supply services was based upon a procedure specified in detail by 4 Will. IV, c. 15, the stages of which were as follows:

(1) The annual supplies are granted to the Crown by the House of Commons in committee of supply and placed at the disposal of the Treasury by a special act—the ways and means act.

(2) The Crown transfers to the Treasury the right of making issues of public money by royal order, which empowers the comptroller of the Exchequer to assign the whole amount of each separate vote under the direction of the treasurer.

(3) The Treasury authorizes the comptroller by warrant from time to time to issue exchequer warrants, and by these to empower the Bank to place at the disposal of a paymaster the full amount of any separate vote. This procedure constitutes the general basis for the credit allowed to the paymasters at the Bank. In order that this may be used—

(4) The Treasury instructs the comptroller from day to day to authorize the Bank to place at the disposal of the paymaster the sums demanded by the latter.

(5) The comptroller then issues the warrant corresponding to this demand, and

(6) The Bank finally withdraws the required sum from the total revenues entered to the exchequer account and transfers it to the account of the paymaster.

No fundamental alteration was really made by these provisions. Instead of the separate appropriations hitherto usual, the greater part of the expenditure was

now, once for all, appropriated to the consolidated fund. The inclusion of the civil list expenses in this appropriation was a fundamental extension of the right of appropriation, but did not alter the right of assignment which was determined by the appropriation. The control of assignment formerly exercised by the ancient Exchequer was now naturally transferred to the comptroller. The special assignment orders used when loans were raised, ceased of themselves with the organization of the public debt.[a]

The payments were made by the Bank on checks from the pay offices, and the sums paid debited to the accounts of the latter. The Bank sent a daily return of such payments to the comptroller and a weekly return of the receipts and payments of the latter to the Treasury.

The separate accounts at the Bank and the powers of the public offices to use the same were regulated by a treasury minute of September 26, 1834.[b] The accounts of such public offices as had possessed them since 1806 were once more expressly recognized as public accounts; payments into these had to be made daily by the offices; their own expenses of management might be met partly by the retention of a small cash balance, partly by checks drawn on their accounts; transfers from the exchequer account were made three times a week. In addition to the exchequer account and to the already existing accounts of the paymaster-general of the forces and of the exchequer bills, four fresh credit accounts were opened as a preliminary measure, with the following "public account-

[a] The forms for royal orders, treasury warrants, and exchequer warrants were determined by a minute of Sept. 26, 1834. (Printed in "Rep. on Public Money," 1856, Ap. 1, p. 479.)

[b] This minute is printed in the "Report on Public Monies," 1856, Ap. 1, p. 471.

ants": the paymaster of the civil services, the master of the mint, the commissioners for the reduction of the national debt, and the governor and company of the Bank of England.[a]

The internal constitution of these accounts was somewhat different from that hitherto customary. The receipts of the offices possessing accounts and the payments made from one office to another in the course of administrative business were distinguished from the transfers made from the Exchequer, and the Bank was instructed to open a cash account for the former and an exchequer credit account for the latter and to place them at the disposal of the offices. Payments could be made from both, but the rule was that the cash account must be exhausted before the credit account was drawn upon. This separation of accounts made it for the first time possible to check the issues of money from the central treasury, which was represented by the exchequer account.

The ancient central treasury was entirely abolished by these changes. After 1834 it was no longer possible to speak of a central public treasury unless by this the Bank was meant. There was nominally no official of the old receipt side of the Exchequer remaining. Its functions were, however, partly exercised by the comptroller-general, who, indeed, retained the name of the original central authority for administering public money and accounts—the Exchequer—although he was only "a sort of shadow of the Ancient Exchequer." The audit office had long ago been separately constituted, and now the Exchequer, as an office for managing the public money, disappeared.

[a] "Report on Public Monies," 1856, Ap. 1, p. 476.

It continued merely as a bookkeeping office for the control of the Treasury, the position and further development of which are connected with those of the audit office which will be dealt with below.[a]

(3) Reforms in organization and administration between 1834 and 1866.

The act of 1834 gave legal recognition to the principle that all public money should be intrusted to and administered by the Bank until it was actually expended. This plan had already been adopted in practice, so that there was a positive advantage in the resulting abolition of the Exchequer. The consequences which might have followed from a complete reorganization of the system of making payments were not entailed. The evils of earlier times were only in part removed. The receivers paid in their net receipts only. The issues were still managed as before by a division of the money among numerous special offices, each of which was authorized and, indeed, obliged to keep a large balance in its account in order to meet the current claims for payment. The receivers were under the control of the Treasury. The issue offices were supervised by their respective administrative authorities. The comptroller-general controlled only the net public revenue and the payments made from this in lump sums to the numerous pay offices, which sums had been assigned to the different services by parliamentary vote.

But a basis was now secured from which the whole system of expenditure might be simplified, an economical use of the cash balances might be made, and a single

[a] The name "Exchequer" is still always used to denote a nominal concentration of the public revenues. The expressions, issues from the Exchequer, loans to, and payments into the Exchequer, are still always used.

effective control be maintained. Reforms aiming at these results were in fact carried out zealously during the next decades, and especially by parliamentary activity. When the Bank undertook the entire administration of the public money, all the technical advantages of banking were placed at the disposal of the Government; hence the question naturally was how to use this connection with reference to the aims specified above. For this purpose the essential requirement was to centralize the system of payments as far as possible, so as to give to the Treasury and audit office the necessary check on the position of the finances. This task was accomplished by various acts of Parliament and orders, which form the transition to the present system.

The consolidation in 1836 of the pay offices of the paymaster of the forces into the single office of the paymaster-general was the first step toward a consolidation of the system of issues. The abolition of the paymasters of the civil services and of the exchequer bills in 1848 and the transference of their functions to the paymaster-general completed this process. All issues for administrative purposes were concentrated in one hand. The functions of this consolidated pay office were regulated by treasury minutes, not without opposition on the part of the comptroller-general.[a]

[a] The most important of these treasury minutes printed in the "Report on Public Monies," 1856, Ap. I, p. 491 *et seq.* are those of Aug. 19, 1836, and Nov. 19, 1836, on the consolidation of the separate pay offices of the paymaster of the forces, and of Dec. 22, 1848, by which the abolition of the remaining special offices and the final regulation of the head pay office were accomplished. Lord Monteagle, the comptroller-general, raised objections to the latter minute on the ground that it concentrated the public monies in the hands of the paymaster-general and allowed him to apply it at will to the different public services.

Whereas hitherto the public money had been transferred from the exchequer account to those of the different paymasters, in accordance with the demands which the latter made to the comptroller-general through the Treasury, now only the account of the paymaster-general was supplied from that of the Exchequer. The more the issue accounts were divided and the more completely the payments from the Exchequer were separated, so much the more readily could the comptroller follow the course of the payments. Thus in the civil service the practice had hitherto been followed of opening an account at the Bank for every separate vote of Parliament. The balance standing to the credit of one account might not be used for payments which had to be entered under a different vote. Thus a check was at once put upon any misapplication of the money. When the consolidated pay office was created, however, this useful system was not only extended no further, but was completely done away with. The gain in simplicity and distinctness seems the less valuable owing to the loss of any method of checking the assignment of money, that is, so far as a strict subsequent control does not render the earlier check superfluous. The development of this branch of the system of control since the institution of the commissioners of audit in 1785 must be briefly described here in order to make what follows more comprehensible.

The commissioners of audit succeeded to all the official duties of the auditors of imprest. They were subjected by law "to the same control to which the auditors of the imprest were then subject or liable by law, usage, or

custom." And by their patent they were empowered "to audit and determine accounts by and with the advice, authority, and consent of the Lords of the Treasury and Chancellor of the Exchequer." Thus they were entirely dependent on the latter, except in so far as their functions might be widened by law. This happened as early as 1799 when, by 39 Geo. III, c. 83, the auditors of the land revenue were discontinued, and their powers transferred to the commissioners of audit.[a] In the following year their powers were still further increased.[b] but this audit had always one great defect; it was not independent and did not extend over the whole of the public expenditure.

2 Will. IV, c. 40 marked the beginning of changes of a different type. This act transferred to the auditors the detailed audit of the navy accounts on such terms that they not only checked the actual payments but also the correspondence of these with the parliamentary vote. This was the appropriation audit, the audit whose object it was to ensure that the money was spent according to the appropriations made by Parliament. It marks the transition from a system of administrative to one of

[a] In consequence of reports issued by select committees from 1792 onward, with regard to the position of the finances and especially to the system of public accounts. See in particular the report in 1797 on auditing the accounts of the public receipt and expenditure. "Reports of Committees of the House of Commons," Vol. XII, Rep. 22. [The Reprints of 1803, 16 vols., fol.]

[b] By 39 and 40 Geo. III, c. 54, they were empowered to recover balances due to the public accountants after the accounts had been audited, and to charge interest in case of delay. 45 Geo. III, c. 91 and c. 141, regulated the technical procedure of the audit; by 2 and 3 Will. IV, c. 26, the audit of the colonial accounts, and by 2 and 3 Will. IV, c. 99, the audit of the Irish accounts were entrusted to them.

legislative control. The latter, however, was still very limited. The auditors had no connection with Parliament and could not express their opinion publicly about abuses, but only through a memorandum to the Treasury.[a]

The total expenditure was of course subjected to that control which, since the abolition of the public treasury and the transference of its functions to the Bank of England, had been vested in the comptroller-general. But this afforded no satisfactory check on the application of the money voted by Parliament and thus had to be extended by the appropriation audit of the auditors. This was itself unsatisfactory in its existing form. The remaining offices on the account side proved themselves more and more superfluous in connection with the growing functions of the commissioners of audit. The accounts of the clerk of the pipe might be replaced by the books kept by them and by the comptroller; the associated offices might be simplified. This was accomplished by 3 and 4 Will IV, c. 99, which abolished all head and subordinate offices on the account side with the exception of that of the King's remembrancer, so-called, which was united with the Court of the Exchequer.

During the following years all attempts at reform were directed toward extending the audit and making it more efficient, while at the same time improving the system of accounts. The powers of the auditors were increased by 10 Vict., c. 92, which act introduced the appropriation audit into the departments of the War Office and Ordnance. In 1849 they were empowered to

[a] Report of the Audit Office on "The Functions of the Committee of Audit," 1851, in "Report on Public Monies," P. P. 1858, 375, p. 836.

present a yearly return to Parliament of the appropriation audit.[a] Bookkeeping by double entry was gradually introduced [b] and the whole system of account keeping and audit was subjected to a detailed inquiry.[c] Two tendencies become evident from this. From the technical standpoint the aim was to simplify both the offices and their functions and to secure a proper exercise of the latter; but from the legal and political standpoint the aim was to strengthen the control of the Treasury and to combine this with the right of Parliament to control the application of the public money.

English parliamentary history contains instances, dating back to the earliest times, of the exercise of parliamentary control over expenditure.[d] The numerous commissions of inquiry and interpellations of ministers supply a continual series of assertions of this right during the eighteenth century. But no fundamental conception

[a] "Treasury Minute," Apr. 13, 1849.

[b] "Treasury Minutes," Sept. 26, 1834, Aug. 19, 1836, May 9, 1837, Aug. 22, 1848; "Report on Public Monies," P. P., 1856, 375, p. 476 *et seq.*

[c] In addition to the twenty-second report of the finance committee of 1797 the following reports for the earlier period should be noticed: The fifth report of the committee of 1810 (P. P., 371), the tenth report of the committee of 1811 (P. P., 253), the fifth report of the committee of 1819 (P. P., 539), the evidence before the committee of 1821 (P. P., 284). Further: for the naval and military accounts, P. P., 1856 N. 160; for the whole system of public accounts and public money the "Report on Public Monies," 1856 N. 375 and 1857 N. 279, and, finally, the yearly reports of the select committees on public accounts since 1861.

[d] The earliest instance was in 14 Edw. III (1340). William de la Pole and John Charnels were summoned to appear before certain persons specified by Parliament and present accounts of their receipts and expenditure (Hatzell "Precedents," vol. 3, p. 72). Richard II appointed a commission in 1380, at the request of Parliament, and authorized it "examinandi et supervidendi quascunque summas et modum expensarum ac statum hospitii nostri" (Rymer's Foedera," Vol. VII, p. 250). These instances become much more numerous during the succeeding years.

of a control extending over the entire management of the public money was attained until the middle of the nineteenth century, just as it was only in this century that the whole administration of finance began to be organized on one definite principle. Parliament, when it has secured complete power over the public revenue and expenditure, ought also to control the administration of this money. But since it can not undertake this itself, the controlling authority must be made entirely independent of temporary governments and put into direct connection with Parliament.[a]

This was the state of the system of control when, owing to the consolidation of the pay offices and the problems connected therewith, Parliament had the opportunity to make a thorough investigation. In 1856 and 1857 the organization of the receipts, issues, and audit was carefully examined by the committee on public monies. The chief object was to solve the problem connected with the consolidation—i. e., to determine in what way this concentrated pay office could be subjected to an effective control. Owing to its history, the Exchequer, or rather the comptroller-general who

[a] These ideas are most clearly expressed in the "Observations" by the comptroller-general, prepared at the request of the select committee on public monies in 1857, on the "Memorandum on Financial Control," by the chancellor of the exchequer laid before the committee in the same year. The comptroller states: "I deny that such confidence in the Executive Government is, has been, or ought to be recognized in any free State. On the contrary, it is constitutional jealousy and not confidence upon which our institutions are founded and on which the safety of the liberties of England depends. * * * The Comptroller-General of the Exchequer is an officer of the Crown, but he is also, most wisely, made responsible (4 Will. IV, c. 16, s. 2) to both Houses of Parliament. On the maintenance of this principle the very existence of our constitution depends." "Report on Public Monies," P. P., 1857, 279, pp. 67, 68.

had replaced it, already, in relation to the assignment of money, checked the legality of the payments made in consequence of this assignment. So long as the Exchequer was still the public treasury this check was simple and natural. But after the transference of the public money to the Bank, and the formation of the single financial office of the paymaster-general, the power of the Exchequer was limited to the opening of accounts at the Bank, and the actual payments were made outside its sphere of observation. If its control were still to extend over these latter, the facility with which payments could be made must be thereby lessened. The most important opponent of control through the Exchequer has stated these contradictory demands in expressing his adverse judgment: "The worst part of the Exchequer system is the attempt to carry out a scheme of separate Exchequer Credits upon hundreds of heads of service through the daily operations of cash, instead of confining the credits, as the French do, to the annual votes or "Legislative credits." The breaking up of annual votes into daily credits with a specific appropriation of each daily credit, which must not be extended, would be fatal to simplicity and regularity of payment and account, even if the plan could be carried out in practice."[a]

In answer to the just complaints about the financial administration, which were made by the controlling authority, viz, that it disregarded the appropriation made by Parliament, that it permitted illegal application of money and even allowed payments for purposes not

[a] W. G. Anderson, principal clerk of the financial business of the Treasury, in his "Remarks" on Lord Monteagle's "Memorandum on the Exchequer," 1854, "Report on Public Monies," 1856, Ap. 1, p. 560.

sanctioned by law,[a] the main argument was that no control *ab ante* could prevent such abuses. The result was that the positive proposals made by the select committees of 1856 and 1857[b] were to leave to the comptroller-general, as before, the control of the general assignments, but in addition to appoint officers under the commissioners of audit for each department of the public service, who should check the daily payments of the department and report on any irregularities. Moreover the accounts of the public departments were to undergo an additional examination and two accounts were to be submitted to Parliament: the finance accounts, which were merely an unaudited statement of the receipts and issues of the Exchequer, on the part of the Treasury, and the appropriation accounts—i. e., public accounts based on an examination and checking of the actual expenditure. These proposals were carried out in 24 and 25 Vict., c. 93; 28 and 29 Vict., c. 93, and 29 and 30 Vict., c. 39, and form the basis of the present system of accounts and audit.[c] The position of the pay offices remains undisturbed thereby,[d] and the control is in principle satisfactory.

[a] Thus in the year 1852–53 a contract was concluded by the Admiralty for the cession of the patent for a ship's screw for £10,000. This sum was paid out of one of the grants for the civil service. It was not included in the estimate until 1853–54 when the money was refunded out of this vote.

[b] "Report on Public Monies," P. P., 1857, 279, p. 3 *et seq.*

[c] By 54 Vict., c. 24, the Treasury was authorized to apply charges and fines paid into the Exchequer to services for which notes had been granted, subject, however, to the subsequent approval of Parliament.

[d] "Report on Public Monies," P. P. 1857, 279, p. 3 *et seq.* "Your committee are satisfied, from the evidence taken before them, that the consolidation of the Pay Departments has been attended with public benefit; that it has diminished the balances left in the hands of the public accountants to the crown; that it has increased the security of public money and promoted economy."

Next to the consolidation of the pay departments the organization of the payments of the revenue departments has been the most important step taken since 1834 with regard to the administration of public money. The system which had prevailed in earlier times of earmarking different heads of revenue for specific purposes was adhered to for many payments until the middle of the nineteenth century.[a] Hence the revenue coming into the Exchequer was diminished not only by the expenses of collection and management but also by those payments which, owing to this system, were not checked by the comptroller-general before they were made. The commissioners of 1831 had already recommended "that the gross receipts of public money from any sources should be placed without deduction in the custody of the Exchequer and be accounted for to Parliament, whose authority should be necessary for the appropriation of the whole."[b] This proposal was, however, with the exception of minor provisions,[c] not carried out until 1854 when Gladstone caused an act to be passed dealing with the matter. By 17 and 18 Vict., c. 94, all payments still charged upon certain specified branches of revenue were transferred to the consolidated fund. Although it was not stated in the act, the necessary consequence was that

[a] A list of the payments made directly through the revenue departments is given in Schedules A and B of 17 and 18 Vict., c. 94.

[b] "Report on Exchequer," P. P., 1831, 113, p. 4.

[c] By a treasury minute of May 2, 1848, the custom of the army and navy departments of deducting from their yearly claims the sum received from the sale of old stores was discontinued. The receipts were transferred to the Exchequer and the expenses stated fully. By 14 and 15 Vict., c. 42, it was enacted that the costs of managing public property should be provided by Parliament.

now *the gross revenue of the State was paid into the Exchequer*, through which *all payments* had to be made. But to pay in *actually* to the exchequer account at the Bank, the revenues raised throughout the country, and to pay them out again to the collectors or other local officials (agents, commissioners) to meet local expenses, would have been exceedingly difficult and fatal to an economical administration. The object in view was merely to place all receipts and all issues under a central control and under Parliament, which latter must secure a knowledge of the total payments from the public accounts which were based on the exchequer accounts. Only *in bookkeeping* was it necessary that all the receipts should be paid into the Exchequer, and all payments be made from it.

It was with this aim that the payments of the revenue departments were regulated by the treasury minute of August 22, 1854.[a] The minute distinguished between payments and advances. The former are, as before, deducted from the sum to be paid into the Exchequer; the latter are partly expenses of management, partly expenses for other public departments, which have to be returned to the revenue departments, and are paid in to the Exchequer as part of the receipts.

The "exchequer and audit departments act 1866" (29 and 30 Vict., c. 39)[b] provided a definite organization for the system of receipt, issue, and audit. Section 10 provided expressly that the *total gross* revenue shall be

[a] "Report on Public Monies," 1856, Ap. 2, p. 578.

[b] The act is entitled: "An Act to consolidate the Duties of the Exchequer and Audit Departments, to regulate the Receipt, Custody, and Issue of Public Monies, and to provide for the Audit of the Accounts thereof." Supplemented by the Public Accounts and Charges Act, 1891, 54 Vict., c. 24.

paid into the exchequer account, a rule hitherto only applied indirectly through the charging of all expenditure to the consolidated fund. At the same time the revenue departments retain their right to advance money, for themselves and on behalf of other departments, to be repaid subsequently. As regards the management of the issues it is stated as a principle that the moneys paid into the exchequer account are to form one fund in the books of the Bank. Without prejudicing the control exercised by the comptroller-general in reference to *the separate assigments*, the *Treasury* is authorized to check the issues and to restrict to the money required for making current payments the sums transferred to the paymaster-general and by him to the different departments. Thus the rule, which had been followed in the management of the public money since the beginning of the century as the chief axiom of an economical system, was now legally recognized.

The right of assignment and the manner of using it remained unaltered. The act itself distinguished between the right of disposing (1) of the issues for supply services (s. 14) and (2) of the credits for the supply services (s. 15). The Treasury obtained a right to the former on royal order, and to the latter on the authority of the ways and means act. The procedure was that already described.

The system of audit was fundamentally altered, the office of comptroller-general being united to that of the chairman of the commissioners for auditing the public accounts. The office thus constituted, that of the "comptroller and auditor-general," resembled that of the

president of the highest court of audit in a continental country. He and his deputy held their offices "during good behavior," and could only be removed by the Crown on an address from both Houses of Parliament. They might hold no other office nor be members of either House of Parliament. The comptroller-general organized the internal arrangements of his department and, in concert with the Treasury, prescribed the accounts and books to be kept in each department of the public service.

The centralized bookkeeping managed by the comptroller-general was abolished. But all the departments paying money into the Bank had to send accounts of these payments to the comptroller-general, who also received a daily return from the Bank with regard to the exchequer account, made out in the form prescribed by the Treasury. These enabled him to learn the position of the total finances and helped to form the basis of the control which he exercised.

The auditor-general exercises a double control:

(*a*) The sums voted for the annual supply services are placed at the disposal of the Treasury by the Bank upon his authority alone; and only by his instructions may the Bank advance money to meet a deficit.

(*b*) He also exercises the controlling functions which belonged to the auditor, and in an extended form. He audits all the accounts of the public expenditure "on behalf of the House of Commons" (s. 27). He audits the accounts of the receivers only so far as the Treasury assigns him this duty. He has access to all documents relating to the accounts. He examines firstly whether the assignment was correct; secondly, whether the pay-

ment thus assigned has been made, and, thirdly, whether it was in accordance with the appropriation. The accounts of the civil service are audited each year in detail. Those of the army are too complicated, and hence only a test audit is made by which in each year about one-sixth of the total expenditure is checked in detail.[a] Every year he prepares an appropriation account over the actual public expenditure, compares it with the sums voted, and lays it, together with his own comments, before Parliament.

II. THE BANK AND THE ORGANIZATION OF THE PUBLIC DEBT.

The administration of the English public debt during the eighteenth century acquired its distinctive character from a variety of causes. The creation of the companies through the incorporation of debt; the varying share taken by them in its administration; the creation of a special form of debt through the exchequer bills and the various forms of ay loannnuits; and the growth of the public debt itself, all contributed to this. During the nineteenth century, on the other hand, no new feature was added to the character already formed. Two points should be noticed with respect to the growth of the English public debt during this century—on the technical side the ever-increasing connection with the Bank of England; and, as regards the actual administration, the endeavor to take in hand seriously the problem of redemption. The eighteenth century witnessed the for-

[a] "Minutes of Evidence Taken before the Committee Appointed to Inquire into the System of Military Account and Estimate in India," 1880. Evidence of R. E. Welby, assistant financial secretary of the treasury, on the procedure in England.

mation of the enormous English debt; the nineteenth century marked the beginning of its systematic repayment. There were no fresh issues until at the beginning of the 20th century—due to the South African War and the China Expedition.

The history of the administration of the English public debt so far as the peculiar character of its technical organization is concerned, really ends with the eighteenth century. The further developments are only the results of the principle established in the course of this hundred years. They are merely applications of one fundamental idea to new cases. Hence our account may here be brief, and the more so since the most important part of the history of the English debt during the nineteenth century, viz, the account of its redemption, falls outside of the scope of a work which is concerned only with the administration of the debt through the Bank.[a]

In consequence of the French war the English Government was continually forced to raise loans; both funded and unfunded debt increased to an enormous extent from 1790 onward into the first decade of the nineteenth century. It was obvious that it was impossible under the circumstances to think seriously of breaking the connection with the Bank of England and handing over the management of the public debt to, say, the South Sea Company, as was proposed in 1797. The Bank was indeed the most effective support of public credit at this time, being always

[a] For an account of the redemption see Leroy-Beaulieu, "Traité de la science des finances," Vol. II, Bk. II, ch. ix. This account, however, is incomplete in regard to the history of the different sinking funds. (See also Report by the Secretary and Comptroller-General of the Proceedings of the Commissioners for the Reduction of the National Debt, from 1786 to Mar. 31, 1890, 1891, C. 6539.)

able to supply the needs of the Government either from its own resources, or by acting as an intermediary for others.

The South Sea Company decreased in importance and subsisted on the remnants merely of its early significance. Its administration of the £20,000,000 of debt intrusted to it continued into the nineteenth century. No further sums were borrowed from it. The debt still owing to it was diminished by frequent repayments, so that by 1853 it was reduced to £9,000,000. Finally in this year Gladstone brought forward a project to pay off this debt altogether, or rather to transform it into an annuity-bearing debt under the management of the Bank. More than £7,000,000 was paid back in cash to creditors who would not agree to the project, the rest was converted, partly into 2½ per cent annuities, partly into a debt created by the same act (16 Vict., c. 23)—the exchequer bonds. Neither was redeemable by the State until 1894. The 3 per cent consols were converted into 2¾ per cents from April 5, 1889, by Mr. Goschen, and into 2½ per cents from April 5, 1903. Three large issues of consols were made at the beginning of the twentieth century, owing to the Boer war and the China expedition. Since the end of the eighteenth century the Bank had continually acted as intermediary in raising loans for the Government, and the total public debt administered by it amounted to nearly £800,000,000 at the conclusion of the French war. Thus all external motives for depriving it of this function had now completely disappeared and it has since continued undisputed administrator of the public debt.

Since 1750 the government debt to the Bank had, with the exception of a temporary loan (1816) which was soon

repaid, only undergone one alteration: In 1834, £671,700 had been paid back, so that it now amounted to £11,015,-100.[a] The interest was paid out of the permanent annual charge for the National debt.[b] The government debt to other creditors, administered by the Bank, was reorganized many times, but the same work was required from the Bank after these changes as before; it raised fresh loans, opened books for the public creditors, paid the interest, redeemed the capital, arranged for the exchange of bonds when there was a conversion, etc. These duties were much simplified when the public treasury was united with the Bank. The earlier assignments from the Exchequer to the Bank and from the Bank to the Exchequer became simple transfers from one account to another. The transference to the Bank of the management of the public money had besides much influence in increasing the Bank's share in the administration of the debt. No further demand was made for any alteration in this already existing connection. The intrusting of an important part of the management of public expenditure to private corporations must have been regarded in earlier times as a peculiarity in financial administration, but this management naturally formed part of the duties taken over by the Bank when the latter assumed entire administration of the public money and of the payments connected therewith. Thus the Bank secured a monopoly of the administration of the funded debt. This connection, according to English custom, has never been stated as a

[a] [In 1816 the Bank advanced a further £3,000,000 at 3 per cent, making the total debt £14,686,800. In 1834 one-quarter was paid off, i. e., £3,671,700, leaving the debt as now £11,015,100. Cf. the Report of 1891, p. 93.—H. S. F.]

[b] 50 Vict., c. 16.

principle, but has frequently been confirmed in individual cases. Hence the administration of the public debt has become so closely bound up with the Bank by the nature of the system of public finance and by tradition, that the connection may be regarded as permanent.

No change has been made during the nineteenth century in the methods of borrowing or in the administration of the funded debt. The steady redemption of the latter is the only feature of importance to notice. But through alterations in the organization of the unfunded debt the sphere of the Bank's influence has been extended in this direction also.

The unfunded debts of the eighteenth century were of two kinds: the bills and debentures of the various departments of the public service, forming special debts of each department respectively, and the exchequer bills and loan debentures issued by the Treasury and representing the debts of the Government. We have already pointed out that, owing to the development of an organized system which involved the appropriation of separate sums for the separate departments of the public service, the former had become simple book debts of the department issuing them, and merely entitled the creditors to receive a payment warrant. As the whole administration of the public money took on the form proper to payments made by private individuals, the public money was intrusted to the Bank, and the payments were made by the Bank on orders from the public authorities. Consequently the bills and debentures issued by the latter also lost their original character and became bills of exchange through which the administrative authorities of the time, whenever it seemed to

them impossible to pay cash, referred the person making the claim either to the Treasury, the paymaster-general or the Admiralty. The bill was then accepted and handed over to the Bank to be cashed.[a]

The loan debentures, which were issued by the Treasury, never amounted, in 1813, to as much as a million at any time and, when these were repaid in 1816, disappeared entirely from the history of the English debt.[b] But the raising of money by exchequer bills continued to be the method usually adopted by the Government and of which, often, excessive use was made.

The methods of issuing, of cashing, and of paying interest on the exchequer bills and the claims arising out of them, were determined by 48 George III, c. 1, (1808)—that is, the provisions which had hitherto been repeated in each act of Parliament which authorized the issue of exchequer bills were now permanently embodied in one special act.[c] But this act placed the Bank in no specially favored position. It was still left to the Treasury, as in the case of the first Exchequer Bills act, "to enter into any contract or contracts for obliging any Person or Persons, Body or Bodies Politick or Corporate, to circulate and exchange at some Publick Office in London or Westminster for ready Money all such Bills as shall be demanded, * * *" for which service an indemnity was to be paid. But immediately afterwards, with a clear

[a] See below p. 248. Fairman, *loc. cit.*, p. 155, speaks of the navy bills as early as 1794 as "being negotiated as bills of exchange."

[b] Fairman, *loc. cit.*, p. 147. "Ret. Nat. Debt," p. 42 *et seq.*, "Ret., Publ. Inc. and Exp.," II, p. 547.

[c] An act for regulating the issuing and paying off of exchequer bills "Whereas it is expedient that permanent Regulations should be established in relation to the making out" etc.

reference to the custom hitherto followed of making these contracts with the Bank, it was stated that the governor or directors of the Bank of England should not be debarred from sitting in Parliament if they made such a contract with the Government "on Behalf of or for the Benefit of the Governor and Company of the Bank of England." As before, the exchequer bills must be received in payment of taxes and bore interest reckoned at so much per cent per diem.

A new form of floating debt came into existence, side by side with the exchequer bills, at the end of the eighteenth century, viz., treasury bills of exchange, issued by the Treasury. The opposite thing happened here to what was the case with the navy bills, ordnance debentures, etc. The latter became mere book debts when the management of the public money was so organized that the total issues of the public departments concerned were completely covered by the total revenue assigned to them. The government bills, on the contrary, so long as they were only used to meet expenses covered by the receipts, were regarded merely as a special form of payment, but they became unfunded debt in cases where they were not covered by the ordinary receipts. Even in the last decade it had become an established custom of the Government in case of need, to draw bills of exchange on the Bank of England, which were honored by the latter to the amount of £20,000 or £30,000. This accepted maximum for the current bank loan rose to £50,000 in 1793. It is well known how these advances to the Government, which increased in December, 1795, in connection with the loan on security of exchequer bills, to nearly £13,000,000,

prepared the way for the crisis of 1797 and the consequent restriction of cash payments. Definite regulations concerning the credit to be obtained by the Government from the Bank were not, however, issued until 1817 and 1819. The provisions contained in the act of 1817 we have already noticed in another place; they led up to the provision of a satisfactory cover for the cash deficit. By 59 George III, c. 76, the Bank was forbidden, except in case of a mere book deficit, to advance any sum to the Government on the security of exchequer bills, treasury bills, or other similar security, without the express consent of Parliament. In case of need the first lord of the treasury or the chancellor of the exchequer must present a written request to the Bank, and a copy of this as well as of the answer of the Bank must be laid before Parliament. In addition it was provided that statements of all advances made, and of all the exchequer or treasury bills purchased, must be presented to the House of Commons. From this time onward the government bills of exchange—i. e., the treasury bills—represent unfunded debt, which must be voted by Parliament, and which is used, like the exchequer bills, as an exceptional source of revenue. The latter, in so far as they served this object, and to distinguish them from the deficiency and ways and means bills, were called "supply bills," since they were used to cover the expenditure voted annually, the supplies.

A new form of loan, which must be regarded sometimes as funded and sometimes as unfunded debt, was created in 1853, when the South Sea Company was dissolved and a portion of the debt to it was converted into negotiable bonds. These, called "exchequer bonds," could be re-

deemed by the Government, bore interest at 3¾ per cent until 1864, and afterwards at 2½ per cent, and ran until 1894. In the National Debt and Loan Act (50 Vict., c. 16) arrangements were made for the interest, by way of exception, to be included in the permanent annual charge for the national debt; the irredeemable capital of these bonds was thus included in the funded debt. Since then there have been repeated issues of similar bonds running for short periods previously determined, and which must be counted as floating debt on account of their short duration. Thus, since 1853 there have been three forms of unfunded debt—treasury bills, exchequer bills, and exchequer bonds. The nature of these bills has been determined in modern times by three acts of Parliament—29 Vict., c. 25 (1866), 40 Vict., c. 2 (1877), and 4 Ed. VII, c. 21 (1904). In 1866 the exchequer bills and bonds were regulated; in 1877 the treasury bills; in 1904 special regulations were made for the exchequer bonds. The following are the essential provisions of the acts: [a]

The treasury bills resemble bills of exchange; they are either payable to order or to bearer, they are made out for a definite sum, and must be cashed within twelve or, at the outside, fifteen [b] months of the day of issue. They bear no fixed interest but are subject to such discount as may be agreed upon between the person receiving them and the Government, when they are issued.

The exchequer bills entitle the holder, or, if they are made out in some one's name, the person in whose favor

[a] The forms in which these bills are issued are given in a treasury minute of Mar. 16, 1877, for the treasury bills, and a treasury minute of Mar. 9, 1867, for the exchequer bills and bonds. See Appendix III.

[b] Three months after the end of the financial year. (7 Ed. VII, c. 20.)

they are issued or his order, to the payment of the sum of money stated in the bill together with all outstanding interest, at any date after twelve months and within five years from the day of issue. The interest is not stated on the bill, but is announced by the Treasury in the London *Gazette* every quarter, for the succeeding quarter. It never exceeds 5½ per cent on the nominal capital. These bills have a special value in that they may be used for the payment of taxes in the second half of any year commencing from the day of issue.[a]

The exchequer bonds are payable to bearer and are issued for a round sum, which must be repaid within six years of the date of issue.[b] The interest is paid on presentation of the coupons attached to the bonds.[c]

The same acts transferred the preparation and issue of these bills, which had hitherto been managed by the Exchequer or, after its abolition, by the comptroller-general, to the Bank. This arrangement had been proposed as early as 1857 by the then chancellor of the exchequer,[d] but was not immediately carried out. The transference of these duties to the Bank in 1866 and 1877

[a] The limitation in the use of exchequer bills for the payment of taxes dates from 1 Vict., c. 26, 1838, which provides that they may not be so used until a year after their issue.

[b] 57 Vict., c. 27, orders that: Where an act authorizes any sum to be issued out of the consolidated fund of the United Kingdom towards making good the supply granted to His Majesty for the service of any year, every sum issued in pursuance of that act shall be applied towards making good the supply so granted at the time of such issue.

[c] On two occasions, after the South Sea Company was dissolved, exchequer bonds of longer date were issued, by 39 Vict., c. 1, for the purchase of the Suez Canal shares, which bonds run till 1912, and by the naval works act, 5 Ed. VII, c. 20, by which annuities running till 1925 might legally run for a period of thirty years from the date of borrowing.

[d] "Report on Public Monies," 1857, 279, Ap. 1. p. 43.

completes the list of public functions which it can perform. It now undertakes the entire business of a central public treasury and administers the funded and unfunded debt, and there remains no branch of public financial administration in which it is not the center or starting point of all activities.

PART IV.

THE PRESENT POSITION OF THE BANK AS THE FINANCIAL SERVANT OF THE STATE.

We have attempted in what precedes to show how the principle of an administration of public money by the Bank has been evolved. In what follows we shall describe how this principle works in practice at the present day, how the important departments cooperate under its guidance, and how transfers of money, assignments, and issues are carried on. We shall, however, only consider this process in so far as the Bank of England forms its center. The almost complete centralization of all public payments in London, and the direct hold of the Bank on the process of payment, lend an importance to the central organization of public financial administration in England such as it possesses in no other country. One characteristic of the English financial administration, which is only explicable by the peculiar nature of the administrative organization, and is only possible owing to the part played by the Bank, is that the public revenues, without being collected in provincial treasuries, are transmitted direct by the receivers to London after local expenses have been met. The Bank of England thus actually receives the surplus cash of all the revenue departments. And it is a peculiarity of

the method of public payments that the greater part of the budget is paid in London itself, and that for expenses which have to be met outside London, and which can not be paid by the receivers, the money is always remitted from London. This appears to be a disadvantage, but through the intervention of the Bank it becomes perfectly simple. In any case the result is that the most important part of the management of the money is in the hands of the central authorities.

The Treasury, the center of the whole financial system, naturally stands at the head of the administration of the public money. Its function and especial duty is to insure the accurate balancing of the financial system—i. e., to secure a constant correspondence between the receipts and issues. Like the head of a large business firm it must continually balance the current receipts against the liabilities of the State, and must take care that the former are ready in hand to meet the latter. Hence it keeps in touch with the position of the public assets at the Bank and with the claims which present themselves, and disposes accordingly of the balance at the Bank. The comptroller and auditor-general cooperates with it, acting as a constant check. To carry out the Government's obligations in detail is the duty of the public offices. But these have no direct connection with the Bank, on the contrary the paymaster-general stands between them and the Bank, and satisfies the demands of all public offices by drafts which the Bank honors. The Treasury, the auditor-general, the paymaster-general, and the Bank are thus the authorities through whose cooperation public payments in and from London are managed. I do not propose in what follows

to distinguish the various powers and functions of these authorities. I shall only give an account of the process by which the public revenues are daily concentrated in the Bank of England and thence distributed amongst the public services, and shall describe the simple machinery which is thus set in motion.

I. THE BANK AS MANAGER OF THE PUBLIC MONEY.[a]

(*1*) *The concentration of the public revenues in the Bank.* Each of the head offices concerned with the administration of the various branches of the revenue (customs, inland revenue, post, and Crown lands offices) has an account at the Bank. All the money received by these offices is in the first instance credited to one of these accounts. Only miscellaneous receipts, which are managed by the Treasury, are paid direct to the exchequer account.[b]

The procedure is simple so long as both receipts and expenditures take place in London. Payment is made either to the receivers general and other receivers of taxes or direct to the Bank. In the latter case the Bank must receive a written authorization from the office.[c]

The revenue received by the collectors[d] in the provinces is remitted to London by means of bills of exchange,

[a] The following account, except where special authorities are referred to, is based on R. Welby's "Memorandum," of Feb. 3, 1882, to the Swedish Government, and on information received on the spot.

[b] With one exception; the receiver of the hereditary revenue, which belongs to the miscellaneous receipts, has a separate account.

[c] Minute of Sept. 25, 1855 ("Report on Public Monies," 1856, p. 587).

[d] The collectors are appointed by the Commissioners of Inland Revenue, established by 53 Vict., c. 21. The office of Receiver General of Inland Revenue, instituted after the French model by the same act, was abolished again in the next year by 54 Vict., c. 24.

which are made out to the head office to which payment is to be made. Should there be a branch of the Bank of England in the neighborhood of the collector, he deposits his money there, and the amount is at once credited to the general account of the Commissioners of Inland Revenue in the books of the Bank. (54 Vict., c. 24.) But as the Bank of England has only nine branches [a] remittances are more usual. The bills run for two or three days and are sent to the Bank by the Commissioners of Inland Revenue to be cashed. When they have been honored the Bank credits the account of the office with the amount in question.

The Commissioners daily [b] transfer the money in hand, with the exception of the balance required for the next day, to the general account of the Commissioners of Inland Revenue, from which it is transferred to the Exchequer account. For this and for the transfers made by private persons under the instructions of the receivers—i. e., for payments into the Exchequer account—special authority from the comptroller-general is no longer necessary. They are made on written assignments from the office concerned.[c]

Certain payments are, however, made both by the head offices and by the collectors before the money is transferred to the Bank. These payments were limited by 29 and 30 Vict., c. 39, s. 10, to drawbacks, repayments, and discounts. No other expenditure, expenses of

[a] Manchester, Liverpool, Birmingham, Bristol, Leeds, Plymouth, Newcastle on Tyne, Hull, and Portsmouth (Whitaker's "Almanack," 1883, p. 232).

[b] Minute of Mar. 2, 1855 ("Report on Public Monies," p. 583).

[c] Minute of Sept. 25, 1855, "Report on Public Monies," p. 587. Gneist has overlooked this, cf. *loc. cit.*, Bk. II, p. 847.

management, or payments on behalf of other departments, may be permanently charged on the revenue receipts. Hence the procedure is as follows: The expenses of management, which are voted by Parliament, are paid out of the current receipts in accordance with this vote. From time to time, however, the head office applies to the Treasury and has the sum expended out of the parliamentary vote transferred through the comptroller from the exchequer account. This sum is transferred back as receipts. When payments are made on behalf of other public departments the sums are transferred by the head office concerned, on production of vouchers, from the account of the office receiving the advance to that of the office paying the money, and thence again to the exchequer account as receipts.

Suppose for example that the customs officer in A collects £1,000 on January 1. This £1,000 must be paid into the exchequer account. He pays, however, £200 toward the expenses of the customs office in A, £100 for the army, and another £100 for the navy. Out of the £1,000 he now has £600 for which he obtains from his bank a bill of exchange payable in two or three days' time in London. He forwards this bill for £600 and vouchers for £400 to the head customs office in London. The bill is sent to the Bank of England, is cashed by it when due, and the sum is credited to the account of the customs department at the Bank. On the same day on which the bill is cashed the department transfers the amount from its account to that of the Exchequer. Thus £600 out of the £1,000 collected in A on January 1 has been paid into the consolidated fund, while the

remaining £400 is only represented by vouchers. The customs department in London now forwards the vouchers for the £100 which have been paid for the army and navy, respectively, to the departments for the army and navy, which in their turn, by means of the paymaster-general, through whom they receive the money voted for them, transfer each £100 to the account of the customs department. The latter immediately transfers the £200 thus realized to the exchequer account. In the way already described it also receives the £200 for its own expenses and transfers this back again. Thus finally the whole £1,000 is paid into the consolidated fund and at the same time the local expenses are met on the spot.

(2.) *The exchequer account.*

The government account has been kept by the Bank of England since 1834 under the name of "The account of His Majesty's Exchequer." Into this all the public revenues are paid in the shortest possible time after their collection, and from it all issues are made. The account has, like every other account, whether public or private, kept at the Bank, a credit and a debit side. The receipts are entered to the former, the issues to the latter. Both have subdivisions, subaccounts for the various heads of revenue, and for those accountants to whom public money is assigned, either as final payment or for further distribution. This specification of the account was ordered by a treasury minute of March 2, 1855.[a] The credit side had then nine subdivisions, which represented the receipts under the various heads of revenue without distinguish-

[a] "Report on Public Monies," 1856, Ap. 2, p. 585.

ing the ordinary from the extraordinary. The debit side distinguished the payments for the consolidated fund and supply services, and subdivided the latter into the expenses for army, navy, and ordnance. This plan was retained in essentials, but changes in detail have been made which particularize the receipts and expenditure a little further. At present the credit side has 25 subdivisions, the debit side 6. The appearance of the government account is now as shown below. (See pp. 230, 231.)[a]

[a] This form is printed from that used by the Bank in sending its daily statement of the position of the exchequer account to the Treasury. Hence it is not exactly like the form described above. For each heading a separate sheet would probably be used. But the number of headings corresponds to the number of subaccounts.

The Account of His Majesty's Exchequer at the Bank of England on —— the —— 19—.

Dr.	£.	Sh.	d.	Cr.	£.	Sh.	d.
To payments as follows, viz:				By balance brought from ——, 19—........			
Consolidated fund services—				By revenue and other receipts under the following heads, viz—			
Bank of England —— quarter ending 19—.				Customs........			
National debt commissioners..........				Excise..........			
Master of the mint....................				Estate and duties			
Paymaster general (supply account), quarter ending ——, 19—.........				Stamps.........			
Local taxation (England), account, quarter ending ——, 19—..........				Land tax, etc....			
Local taxation (Scotland), account, quarter ending ——, 19—..........				Property and income tax......			
Road improvement fund account, quarter ending ——, 19—..............				Land value duties........			
				Post office......			
				Crown lands (commissioners of woods, etc.)..........			
Supply services—							
Paymaster general (supply account), year ——, 19—..................				Inland revenue (miscellaneous receipts)...			
Customs general account, year ——, 19—.............................							
Inland revenue general account, year ——, 19—........................							
Postmaster general's account, year ——, 19—........................							

The Account of His Majesty's Exchequer at the Bank of England on —— the —— 19—.—Continued.

Dr.	£.	Sh.	d.	Cr.	£.	Sh.	d.
				Receiver of hereditary revenues...........			
				Secretary of state for India...............			
				Paymaster general.......................			
To repayment of deficiency advances..........				Suez canal share receipts.................			
				National debt commissioners.............			
Total payments..........................				Master of the mint (extra receipts, etc.)....			
				Master of the mint (bullion), 33 V., c. 10....			
				Treasury bills..........................			
				Bank of England........................			
To balance carried to next account............							
				By bank advances on account of deficiency of consolidated fund........................			
Balance on local taxation account (England)...							
Balance on local taxation account (Scotland)...							

The subaccounts on the credit side of the exchequer account include almost all the heads of revenue which appear in the yearly finance accounts. The divisions are not however made on the same principle. The former are distinguished according to *the department* by which the money is paid into the Bank, the latter according to *the nature of the receipts.*

The subaccounts on the debit side are likewise distinguished according to the offices which are paid direct from the Exchequer. The arrangement of the offices has not been altered since 1834 except by the consolidation of the pay offices. The paymaster-general's account has taken the place of the accounts of the separate pay offices, the rest remain unaltered. Since all payments must be made through the paymaster-general, money is placed at his disposal both out of the consolidated fund and out of the supplies. Hence two subaccounts are opened for the assignments made to him.

The exchequer account for any given day contains on the credit side all the receipts paid in up to that time, and on the debit side all the public issues made during the same period. Hence if the two are compared, the result gives the actual cash balance at the disposal of the Government, or supposing the receipts are less than the expenditure, the cash deficit. As we have described above, the receipts are remitted directly after collection and are paid into the exchequer account in the course of a few days. In the case of the issues, on the other hand, it is the rule that only the sums required for current expenses are transferred from the exchequer account to the paymaster-general. It follows that all the sums transferred to the

issue departments for distribution are in fact actually spent already; no receiver or paymaster has a surplus balance of any importance, and the balance on the exchequer account represents *the actual sum at the disposal of the Government for administrative purposes.*

The exchequer account is not the account of a distinct central treasury as opposed to various other treasuries. It is the repository for all public money. The money in the hands of the paymaster-general, of the army agents, and of the under-paymasters of the navy, is assigned for the payment of public liabilities which already exist. The balances, which must naturally be kept in hand in these cases, are small, and are kept small by estimates made in advance as accurately as possible. The exchequer account of the English financial administration at the Bank of England is the finest example of an economical centralization of public receipts and issues. It gives the Treasury the advantage of an unusually clear oversight of the financial position, and enables the audit department to check all the movements of receipts and expenditure. Taken in conjunction with the remaining public receipt and issue accounts at the Bank, the exchequer account also supplies a basis for the control exercised by the Treasury over the revenue and issue offices. As regards the latter, however, the central administration is concerned only with the offices which appear on the debit side of the exchequer account. And amongst these the office of the paymaster-general is the only one of importance as a pay office. The others are not pay offices; the transfers to the Bank constitute payments in themselves. In both these other cases there is no

question of payment transactions; what happens is merely a transfer of bullion through the mint, a repayment of public debt through the commissioners for the reduction of the national debt, and so on.

(3.) *The paymaster-general and his accounts.*

The paymaster-general is connected with every department of the administration. All demands for money from these departments are made to him. It is his duty to have the required sums transferred through the Treasury—i. e., through the auditor-general—from the exchequer account, and then to undertake their assignment. But he not only receives money from the Exchequer. Deposits are frequently transferred to him from the public offices, and a portion of the various receipts are paid in through him. All payments of advances and repayments of arrears arising amongst the various branches of the public service pass through his hands. Thus it is through him that the public assets, which are concentrated in a large sum in the exchequer account, are applied to their proper purposes and distributed amongst the different public services. So far as possible he carries out the payments in detail. For payments made outside London the public offices are assisted by the accountants and revenue officers subordinate to them.

The army department has agents by whom the payments within certain districts are undertaken. They are charged with the sums allotted by the accountant-general of the war office and must present accounts of their expenditure. These agents in their turn distribute

the money to the paymasters of the regiments. The same method of distribution is employed in the navy.[a] The civil service is managed rather differently. In this case the Treasury determines which departments shall render accounts in connection with the different parliamentary votes—i. e., shall undertake the distribution of the money voted.[b] The accountants receive the money in large sums from the paymaster-general and themselves undertake the detailed payments, making use of the banks at which the district paymasters have accounts.

In order to meet his liabilities the paymaster-general has four accounts at the Bank of England: The supply account, the cash account, the drawing account, and the bill account. He uses these as follows:

Into the supply account he pays all moneys transferred to him from the Exchequer. Nothing is booked here except these transfers.[c]

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[a] The agents employed by the army department are bankers. At the present time there are 8 army agents and 9 navy agents. See Whitaker's "Almanack," 1883, p. 163. [There are now 3 army agents (p. 223) and 4 navy agents (p. 250.)] The proportion of payments for the army made by the agents and by the paymaster general, respectively, in 1879 was as follows: By agents at home, £8,500,000; abroad, £4,000,000; by the paymaster-general, £5,500,000 ("Minutes of Evidence before the India Committee," 1880. Evidence of Mr. White, the accountant-general in the war office, on July 29.).

[b] The Budget of the civil service is divided into seven classes and each class is arranged according to the different services for which the special vote is made. This arrangement divides the contents according to the *objects of the administration.* For purposes of issue and accounts, however, the votes for different classes are paid into one office, since *the arrangement of offices* does not correspond with this division. A corresponding arrangement of the parliamentary votes is always used for the civil service estimates. In 1911, 70 accounting officers made payments and presented accounts for 109 votes and 3 revenue departments for 7 votes.

[c] A transfer to this account is indicated by the words "Supply account" inserted next to "paymaster-general" on the debit side of the exchequer balance sheet as printed on pp. 230, 231.

In the cash account are collected all sums deposited by other public departments, the repayments of advances made by one department to another, or money paid direct to the paymaster-general as collector; in brief, all receipts, whether actual or for transmission, which do not have to be paid to the Exchequer, and the receipts of the paymaster-general himself.

These accounts are intended as sources of supply for the two others, and their balances are diminished only by deductions and transfers to the latter, not by payments. The payments are debited to the drawing and bills accounts, which are consequently also called the "working accounts."

All sums used to cash the paymaster's checks are debited to the drawing account, whilst the bill account supplies the money needed to meet bills of exchange as they fall due. The separation of those accounts which are only required to act as reservoirs, and those actually used in making payments, serves to simplify the control of the receipts in hand and the payments made, and also is a protection against fraud. The position of the supply and cash accounts is known only to the paymaster-general, or rather to the assistant paymaster. He transfers money from these accounts to the two working accounts from time to time, daily or it may be hourly, when demands are pressing. The checks by reason of which the actua payments are made by the Bank are issued by a subordinate official, the paymaster. Since the latter is ignorant of the balance in the drawing account, he would run the risk, in case of an intentional fraud, of overdrawing. The distinction between exchequer credit and cash receipts,

represented by the supply and cash accounts, respectively, has already been explained in describing the division. The cash account serves, however, a special function, which makes it, as we shall see later, particularly important in the transactions of the paymaster general.

The whole administrative system makes demands daily on the paymaster-general. For the army the controlling organ is the War Office, for the navy the Admiralty, for the civil service the administrative authorities supervising the accountants. The paymaster-general must be supplied with the funds necessary to meet these demands. For this purpose he applies daily to the Treasury, to which he sends a statement of the payments made on that day and of those which will probably have to be made on the next day. This estimate is based partly on the amounts actually known to be needed to meet bills of exchange falling due, partly on a calculation of external transactions, of the requirements in previous years, and so on. The demands of the different departments on the paymaster-general are accompanied by a specification of the vote on account of which the issue is required, and of the fund (consolidated fund or supply) to which the payment is charged. The paymaster demands money from the Treasury in the same form. The actual transfers are made in a lump sum. Suppose, for example, that £50,000 is needed for the army, £50,000 for the navy, and £50,000 for various civil service expenses; the comptroller-general, acting on the instructions of the Treasury, would transfer £150,000 from the Exchequer account to the supply account of the paymaster-general. Then the assistant pay-

master transfers the required sums at intervals to the drawing and bill accounts.

Although the paymaster-general regards as a single fund the sums standing at his disposal for issue, and meets all demands out of the one balance, he is not justified in regarding them as all alike without further examination, and in satisfying every claim. In his books, on the contrary, the various votes are distinguished. This separation of votes is, however, carried out only in so far as the appropriation of money by Parliament demands the application of definite amounts to definite objects. The army and navy have the right to make transfers within their respective votes, provided that the total amounts voted for the two services are adhered to.[a] The payments made on the civil list are carried out according to the classes established by 1 Vict., c. 2. The expenditure for the civil service is divided according to the different parliamentary votes, which are distinguished in the books of the paymaster-general according to the separate services for which they were made.[b]

When a claim is made for the civil service the paymaster-general's own officials, the so-called examiners, compare it with its accompanying voucher. If the examiners find nothing of note they forward the papers to the officer responsible for the assignment of the money—

[a] "Provided always that the Issues for Army and Navy Services shall be made under the general Heads of 'Army' and 'Navy,' respectively." (29 and 30 Vict., c. 39, s. 15.)

[b] These agree in substance with the arrangement of parliamentary votes used in the existing civil service estimates. But there they are distinguished by reference to the persons responsible, the accountants, whilst in the books of the paymaster-general the arrangement in classes is adhered to and each class is credited with the amount of its vote.

i. e., to the paymaster, whose business it is to issue the checks. He in his turn sends them to the assistant paymaster, by whom they are arranged according to the different votes to which they belong and are entered in a book, which book is also looked at by the examiners on the following day. The sum to be paid is at the same time booked in the assistant paymaster's office. At the beginning of the year, after the opening of the general audit, each of the separate classes mentioned above is credited with the whole sum allotted to it. The account is then debited with each payment made in the course of the year. This method of bookkeeping used by the paymaster-general makes it possible to control the whole expenditure of the Government in as much detail as is desired, from the one standpoint. It is still possible for the department making the demand to misapply the money assigned to it under a particular vote. Such transfers are indeed allowed, if subsequently justified, in the case of the most important departments, the army and navy; in the civil service they are rare because most of the payments in this case are made in London by the paymaster-general direct.

It frequently happens that the claims made on the paymaster-general do not correspond with the sums which he has demanded from the Treasury. If we refer again to the example given above, it may happen that he has demanded £50,000 for the army, navy, and civil service, respectively, while the actual claims made are £40,000 for the army, £60,000 for the navy, and £40,000 for the civil service. He will, however, making use of his general authorization, satisfy the increased demand from the

navy, debit it with the same in his books, and make good the difference by demanding an additional £10,000 for the navy on the following day. So long as the credit allowed in the books of the paymaster-general for the different public services is not exceeded it is absolutely unimportant whether the demands of the departments for these amounts are covered by the transfers made by the Treasury, or rather by the auditor-general. The transfers of the latter are made merely in order to supply the paymaster-general with the required balance. The appropriation for the public services is made through him and is only known subsequently to the Treasury and to the audit department through his statement. Hence these appropriations can not be controlled beforehand by the Treasury and Audit department, because the paymaster-general has always, in his cash account, sums which he must use before demanding an exchequer credit. His payments are thus to a certain extent independent of the assignments from the Exchequer. In the cash account accumulate deposits from the public offices, repayments of advances from one office to another, and so on. The money in it has always been assigned already to certain public services. The following example will show how these sums are used by the paymaster-general for his payments.

It may happen that the fleet has made over to a foreign country a portion of its accumulated stores. This loan is repaid in course of time, not in kind but in money. The money belongs to the navy, which has temporarily disposed of, and afterwards received back again, a portion of the amount voted for it in Parliament. Suppose it is a

matter of £100,000. This sum can not be paid into the Exchequer—i. e., into the consolidated fund—for it does not represent revenue. It is merely a sum whose expenditure the department has deferred and which will in the future be used up again. The £100,000 is thus paid into the account of the paymaster-general, and is placed by him in the cash account. At the same time he credits the amount to the account of the navy.

As long as this sum is in the cash account the drawing account must be replenished from it. The payments which are made during the next few days will be met out of it. But the money thus used to meet all demands from all departments belongs to the navy. The consent of Parliament must have been obtained for these same demands in order that they may be met at all. The money from these votes must be assigned to these demands, which must ultimately be brought into agreement with the amounts voted. This correspondence is shown in the books of the paymaster-general as soon as the payments have been made. In the Treasury, however, the credits of the departments concerned appear no further affected in spite of the satisfaction of the claims. In the daily statement sent to the Treasury by the paymaster-general, these demands will, however, appear; they will be noted as "overdrawn"—i. e., as provided with no funds from the Exchequer. After a few days the paymaster will demand credit for the departments which were overdrawn. He will receive this through his supply account and will now continue to work in the usual manner. The navy is assured of its £100,000 since it had been credited with this amount by the paymaster-general;

a confusion between permanent and temporary receipts is prevented by the separation of the cash account from the others, and the retention of an unnecessary balance is avoided by the speedy employment of the money in the cash account. The principle of a single fiscal treasury—i. e., of the concentration of the supplies in a single fund, divided in the books according to the different services for which it is intended—is thus carried out to its fullest extent.

The method described above of meeting claims against the administration is applicable only where grants have been made in the budget. It happens, however, in a country like England, whose fleet and troops are scattered throughout the world, that demands are made on the Government for which no provision has been made by parliamentary grant, and whose satisfaction can not be deferred until the consent of Parliament has been obtained. In such a case the paymaster-general must refuse to pay out the money from the Exchequer, since the sum demanded is not charged on the consolidated fund, nor can any parliamentary authority be claimed for its payment. In order that the Government may not be left entirely helpless in such a case Parliament itself has provided a way of escape. "The public interests require that the Government should possess the power of incurring expenses of indispensable necessity, although Parliament may not have previously provided for them. * * * Unforeseen events may happen and lead to an expenditure beyond the provision made by Parliament for the ordinary service of the year; and it must be for the interest of the public that no delay should occur in taking

the necessary measures, and in defraying the expenses which such events may entail."[a]

A fund exists called the "treasury chest fund" [b] whose purpose is to supply money for the service of the army and navy abroad and for the colonial governments, in unforeseen emergencies. This fund must amount to not less than £700,000 and not more than £1,000,000 (56 Vict., c. 18). The sum is fixed by the Treasury in a minute which is laid before Parliament. The Treasury is authorized to use it as "a Banking Fund for facilitating Remittances and for temporary advances for Public and Colonial Services to be repaid out of the monies appropriated by Parliament to such services or otherwise applicable thereto." The governors of the colonies are permitted to take advances, in cases of urgent need, out of the treasury chest, which advances must be paid back out of money voted. The treasury chest is controlled by the Treasury Chest officers. (In 1911 there are 11 of these in the Colonies and Egypt.) They have however no separate fund kept apart in the Bank as a treasury chest fund. The money is not divided. Neither have they a direct power of assignment. They must on the contrary apply like anyone else to the paymaster-general—i. e., to the Treasury—stating the total demands

[a] See Parliamentary Report quoted by Alphaeus Todd, "Parliamentary Government in England," ed. 1892, Vol. II, p. 244.

[b] It arose out of the "army extraordinaries" from which in earlier times advances were made to the public accountants and other departments abroad. "Memorandum on Commissariat Chest Account" by Mr. Anderson, 1840. "Report on Public Monies," 1856, p. 589. "Memorandum," 1850, *loc cit.*, p. 607. "Draft of a Bill for Limiting and Regulating the Commissariat Chest Fund," 1851, *loc. cit.*, p. 613. "Minutes of Evidence before the Select Committee," 1856. "Report on Public Monies," 1856, p. 7. Treasury Chest Fund Act, 56 Vict., c. 18.

which he has received on the treasury chest. They are however obliged to see that the money taken from the fund and the advances made are repaid out of the sums voted for the army and navy, or, in the instances cited, for the colonies. The treasury chest is intended only to make it possible to meet expenses until such times as Parliament has made further provision for them.[a]

Besides this there is a second fund to meet similar necessities in the civil service. This is called the "civil contingencies fund" and is limited to £120,000.[b] The Treasury controls this fund and it alone is empowered to draw out money occasionally to meet "new and unforeseen expenditure for civil services at home, for which no votes have been taken, or to meet unforeseen deficiencies on ordinary votes. * * * No expenditure may be permanently charged to this fund. All such payments form the subject of subsequent votes, and the money advanced must be repaid out of these subsequent votes."[c] By the paymaster-general act (53 Vict., c. 53) the commissioners of the Treasury were authorized to make regulations to transfer to the Bank any of the duties of the paymaster-general; to alter the existing regulations for the conduct of business in this office; and, in the case of funds which had to stand in the name of the paymaster jointly with that of any other person, to substitute for the paymaster any officer of the Bank of England. All such regulations must be laid before Parliament within three weeks after

[a] The balance of the Treasury Chest Fund for 1909–10 is printed in the Appendix.

[b] It arose out of the "civil contingencies votes," yearly grants for a fund to be applied to the purposes stated (index to "Report on Public Monies," 1886. Voce "Civil Contingencies," pp., 33 and 34.)

[c] Todd, *loc. cit.*, pp. 244, 245.

they are made. The paymaster-general act seems to show a tendency to eliminate this office of middlemen by degrees; hitherto the act has received no practical application.

(4) Provisions for covering the cash deficit.

It was customary until the middle of the nineteenth century to vote certain taxes annually, and to apply them to meet the expenditure agreed to annually, in contradistinction to the revenues which were combined in the consolidated fund. The sugar tax was voted in this way until 1846. Since that time, however, the total public revenue has been paid into the consolidated fund. The expenditure agreed to yearly is met out of the surplus of the consolidated fund over the payments charged to it. There is no division of the receipts but only of the issues, and the ways and means act which assigns the money for the outlay voted yearly—i. e., the supply services—does this by appropriating the surplus from the consolidated fund for these purposes. Thus for bookkeeping purposes the consolidated fund services and the supply services are to be regarded as distinct. The former has the priority, and if the public receipts are insufficient to cover the expenditure, fresh provision must be made for the supply services. This difference is shown clearly by the manner in which a deficit is covered in each case.

Thus at the end of each quarter (the first ending on Mar. 31), the Treasury draws up a return of the receipts and charges on the consolidated fund. In the charges are included the interest on the public debt which will fall due during the first days of the succeeding quarter. The

balance between the receipts and expenditures shows whether the revenue paid in during the past quarter is sufficient to meet all those charges, or how great the final deficit will be.

A copy of this return is forwarded to the comptroller and auditor-general, who, after he has convinced himself of its correctness, notifies the Bank of England of the amount of the possible deficit. This notice empowers the Bank to advance during the next quarter, on a written demand from the Treasury, a sum not exceeding the amount of the deficit. The rate of interest on this advance is agreed upon between the Bank and the chancellor of the exchequer. Usually it amounts to 2 or 3 per cent. This loan is made by crediting the exchequer account with the sum advanced: the loan has to be repaid out of the growing receipts of the consolidated fund during the quarter in which the advance is made. The repayment is made by simply writing off the debt. This is the so-called deficiency advance, which has taken the place of the deficiency bills. It is repeated almost every quarter, since the Treasury finds it more convenient to borrow money for short periods than to keep large balances during a long period. The receipts and issues connected with the consolidated fund are so steady that they are balanced without any difficulty in the course of the year.

It is otherwise with the supply services, which can more easily lead to a disturbance in the financial system. An unexpected declaration of war, for example, leads to sudden demands on the public money for which no provision has been made. In such a case the Treasury can demand a loan from the Bank in the same way as in the

case of the deficiency advance; it is bound to pay this back out of the current receipts during the succeeding quarter. If this is impossible, i. e., if the demand is so large that it can not be met by a possible increase in the receipts during the following quarter, application must be made to Parliament to supply the necessary money. For in such a case the cash deficit is not merely due to a disparity of time between the outlay and the receipt of the revenue, but is a real deficit resulting from the inadequacy of the total revenue as compared with the total expenditure.

This kind of loan is called a ways and means advance, and has taken the place of the ways and means bills. It also leads merely to a debt in the books and is of a temporary nature unless its peculiar character causes it to be converted into a genuine unfunded debt. By 50 Vict., c. 16, the interest on these advances, in so far as they then existed, was included in the permanent annual charge for the national debt.

(5) *Methods of payment.*

The connection between the public treasury and the Bank naturally leads to the use of the forms customary in banking for most of the government payments. These payments may be classified as book transfers, payments by check, and payments by bills of exchange.

Transfers can necessarily only take place when the office making the payment and the payee have accounts at the same bank. They are not, however, confined to the Bank of England, since both offices and individuals, outside London, where it is necessary, have accounts at

local banks. But this is done as little as possible, as the aim is to make all payments through the Bank of England. In addition to the accounts already mentioned, viz, those of the Exchequer, the revenue department, the paymaster-general, the master of the mint, and the commissioners for the reduction of the national debt, we must notice that accounts at the Bank are possessed by the commissioners of loans and public works, the receiver of the metropolitan police, the seven state prisons, and some others. Other accounts which, though not public accounts, are of importance in payment transactions, are those of the individual agents who keep their cash at the Bank although not obliged to do so. All payments which the said offices and the agents have to make amongst themselves are managed by simple "writs-off"—i. e., by written instructions to the Bank to transfer a sum from one account to another.

The transfers [a] in the books of the paymaster-general must be distinguished from these book transfers at the Bank. By the former, repayments are made from one department to another by a simple process of book entry. This process has already been referred to in connection with the cash account. It is convenient to distinguish it from the other form of book transfer because it is really a question of refunding by a method of bookkeeping and not of actual payments. Both have, however, one advantage in common—they avoid the transfer of coin.

All transfers of money between the head offices of the Government are thus accomplished by book entries merely.

[a] They were regulated by the Treasury on December 22, 1848, §10. Cf. also Mr. Anderson's "Remarks on Lord Monteagle's Memorandum on the Exchequer," 1854. "Report on Public Monies," 1856, p. 556.

It may happen also that an individual claimant has an account at the Bank. In this case, too, payment will be made by book transfer.[a] This process consists merely in writing off the sum from the one account and crediting it to the account of the payee; it is accomplished on the spot, and can be immediately checked by both offices.

The employment of bills of exchange for the transfer of money by public authorities has, as we have seen, been usual in English finance for about a hundred years. The revenue is now remitted to London entirely by bills of exchange. Payments abroad and also contractual payments are made almost without exception in this way. Payment by bill of exchange has been expressly ordered by act of Parliament in the case of some payments at home.[b] These are drawn either on the Treasury, the paymaster-general, or the Admiralty; are accepted by a stated official there, and are always payable at the Bank of England from the bill account of the paymaster-general.[c]

Each day the paymaster-general sends the Bank a list of bills about to fall due. This list is signed by an official appointed for the purpose by the paymaster-general,

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[a] This was provided by a treasury minute of December 22, 1848, §134. "But where claimants have accounts opened at the Bank of England, the payments are in all practicable cases to be made by a writ off or transfer order in preference to a check payable to bearer."

[b] 11 Geo. IV, c. 20, 1830, provides that certain pensions may be paid by bills of exchange, which can be drawn on any collector; 2 and 3 Will. IV, c. 106, 1832, makes a similar provision for army pensions, at the same time limiting the right to persons residing on English soil.

[c] Minute of Dec. 22, 1848, §19: "All bills of exchange, whether accepted at the Treasury, at the Admiralty, or at the Pay office itself, are made payable on the Paymaster-General's Bill Account."

and serves as an order to the Bank to honor the bills included therein when they are presented.

Unless a special form of payment is ordered by Parliament, the method is left to the discretion of the various authorities. There is no single rule determining the payments for the whole Government. Hence the use of bills of exchange is specially regulated for each branch of the public service.[a]

Payments by check, like the book transfers, require a bank account, but the payee need not possess one. Hence payments by check are much more widely used than book transfers, and in particular for small payments, whereas book transfers are generally, though not always, made for large sums. In this connection the payments of the paymaster-general are specially to be noted, for the payments of all the public departments are made through him whenever possible. When it is necessary, indeed, he places large sums at the disposal of the different departments, leaving to them the further distribution, but he also takes a considerable share in the detailed

[a] In the case of the navy, which most often has occasion to use bills of exchange, the provisions referring to their use are contained in "The Queen's Regulations and Admiralty Instructions for the Government of Her Majesty's Naval Service" (Feb. 13, 1879, pp. 499–515). The accountant officer of every ship has the right, subject to the consent of the captain, in ports where there is no navy office, and no treasury chest, to draw a bill falling due three days after sight on the accountant-general of the Admiralty. The rate of discount must be certified upon the actual bill by the British consul or two reputable merchants. At the same time a "letter of advice," countersigned by the captain, must be dispatched to the accountant-general. To meet chance expenditures the accountants carry ready money with them, the total being limited, however, to £65 in the smallest ships and £300 in the largest. Further, every member of a ship's company can transmit money home through the accountant, who draws a bill upon the paymaster-general for the sum which is handed to him, and dispatches it to the address indicated.

payments. Local payments are made through the collectors; the repayments to the revenue departments are made by the paymaster by means of book transfers; naval expenses abroad, and contractual payments, are managed through bills of exchange which the paymaster has to honor by an order on the bill account. There remain the payments of the civil list and of the civil service and army, so far as these obligations are not fulfilled in the ways already mentioned. If the payments fall due in London they are made through the paymaster-general, and, with few exceptions, by check.[a]

All sums over £50 must in fact be paid by check. For sums between £5 and £50 the payee may choose whether he will take a check or coin. Sums under £5 are always paid in coin. For sums which exceed a certain amount the check is crossed. Each check is signed by two of the officials of the paymaster-general, examples of whose signatures are kept at the Bank.[b] All checks are paid from the drawing account. For payments by coin the paymaster-general daily receives from the Bank a sum in coin corresponding to the amount he expects to need.

[a] As early as 1836 a treasury minute of Aug. 19 states that: "No payment whatever is now made by the Army Pay Office, be the amount ever so small except by means of a check on the Bank of England." By the consolidation of the pay offices, the paymaster-general succeeded to this practice within the limits stated in the text. The ordnance pay office pays in cash salaries, half-pay, pensions; the navy pay office, sums under £5. ("Report on Public Monies," 1856, p. 498.)

[b] A general authorization is sent beforehand to the Bank: "You are authorized to pay on the countersignature of Mr. So-and-So checks for public services drawn upon my drawing account by the person thereby appointed to that duty."

(6) The control over money transfers.

Without describing the bookkeeping itself in more detail, it is necessary to explain how and to what extent the Treasury and the audit department supervise the transfers of money between the various offices. It is clear from what precedes that the whole financial system is so centralized that all public receipts are entered in the exchequer account and all issues must be made from this account. But it is evidently not sufficient for the Treasury to supervise this account alone, noting the variations in it due to the in and out flow of money. Except in cases where the receipt and issue offices manage their own money independently, the Treasury must see that the former hand over their balances correctly, and that the latter make a proper application of the money supplied to them. For purposes of finance it aims at preventing the accumulation of any superfluous cash balance, while for purposes of control it aims at hindering or quickly detecting any fraud, and finally, for purposes of administration, it must have a grasp of the entire position of the public finances as regards both revenue and expenditure.

Since the revenues are remitted to London and credited to the accounts of the revenue departments, the contents of the latter at any time show the exact position of the receipts throughout the country during the preceding days. The Treasury obtains in addition full information concerning the local expenditure from the system of accounts which we have described. All other issues are managed by the Treasury itself, and, since they involve alterations in the accounts at the Bank, and in the books of the paymaster-general, an examination of these books and of the

bank accounts gives complete knowledge of the monetary transactions at the public offices.

The miscellaneous receipts are managed by the Treasury itself, so that the revenue departments which remain to be supervised are the customs, inland revenues, post and crown lands offices. Each of these offices sends a daily statement to the Treasury of the receipts transferred by it to the exchequer account, but not of the receipts actually collected by it. The Treasury receives a weekly return from the inland revenue office specifying the total receipts under their various heads. This furnishes an exact account of the receipts collected by the office in the course of the week. The customs office sends in a similar statement every month. Finally the offices of the inland revenue, the customs, and the post[a] send the Treasury four times a year a balance sheet, so-called, which contains a specific account of the receipts paid in, the payments made, and the transfers to the Exchequer. By means of these various returns the Treasury learns (1) daily, how much the offices have paid into the exchequer account; (2) weekly or monthly, the amount received during the period under the different heads, at the two most important revenue offices; (3) quarterly, how great the receipts and issues have been during the last three months, under which heads the issues have been made, and what balance the three revenue offices hold.

All these returns can be verified by comparison with the returns which the Bank must supply to the Treasury, and they in their turn are intended to serve as a check upon the statements of the Bank. The Bank forwards a daily

[a] The crown lands office forwards no special specification.

return of the exchequer account.[a] This specifies on the credit side the various heads of the revenue, and thus shows how much has been paid into the account under each of these. The sums here specified must correspond with those given in the returns of the revenue departments themselves, and any discrepancy is at once inquired into. A detailed comparison of this return with the weekly and monthly returns of the inland revenue and customs offices shows also how large the daily balances at these offices have been. Besides this daily statement the Bank also sends in a weekly return, showing the position of all the public accounts, from which the Treasury can see at once the position of the various revenue departments. This in its turn serves to check the statement of the balance in hand, which may be shown in one of the quarterly returns which have to be presented by the revenue departments. The returns of the paymaster-general combined with those of the Bank make it possible to supervise the management of the issues. Together with the daily claims for money a return is sent in which states the amounts credited to the different public services out of the moneys assigned to them in the books of the Exchequer. The position of the various public services can be learned by combining this return with that for the preceding day, and with the sums demanded and transferred from the Exchequer for such services. The assets of the previous day are increased by the latter. They form the balance for each service at the beginning of the day for which the return is now presented. A comparison shows by how much this has decreased in the

[a] See the form given above, pp. 230–1.

course of the day. The sums demanded from the Exchequer for the different services are merely credited to the latter by a book transfer, but since the money forms a fund from which demands can be met for which nothing has been transferred, it frequently happens that the different services appear in the return as "overdrawn." This means that more has been paid on their behalf than was demanded. It follows then that other services must have used less than the amount credited to them, since the total of all the amounts credited forms the whole cash balance standing at the disposal of the paymaster-general.

The bank return on the position of the exchequer account contains on the debit side the statement of the transfers made on that day from this account to the supply account of the paymaster-general. These transfers must agree with the demands sent in by the paymaster-general on the previous day—i. e., with the assignments made by the Treasury through the auditor-general. Thus the Treasury checks the proper execution of the assignments. This daily bank return contains however no information on the state of the supply accounts, since the transfers made by the paymaster-general to his working accounts are not given in it. But the weekly return of the Bank on the position of all the public accounts, does give particulars of the four accounts of the paymaster-general, the amount of which must agree with the total amount of the balances of the different services as stated by the paymaster-general in his last return.

The daily return of the paymaster general gives no particulars of the votes, but is arranged under the general heads, army, navy, civil services, etc. But each month he

forwards a specific statement to the Treasury. The statement of the position of the four accounts at the Bank follows a combined statement of the balances of the public services, as in the daily return. This general abstract is the only return made for the army and navy, since in these cases the payment of the money is not classified under the different heads. The expenditure from the civil list and the civil services, on the other hand, is particularized according to the various classes and parliamentary votes.

The Treasury supervises the expenditure made through the Mint and the national debt commissioners in the same way as that of the paymaster-general, and keeps a check on the proper crediting of the money transferred to the Bank of England.

All the above-mentioned returns of the Bank and of the receipt and issue offices supply the basis for the public bookkeeping managed by the Treasury, which follows, step by step, the course of the receipts and expenditures. All the returns are forwarded to the auditor-general, who has however no right of intervention. He may only use them as a basis for the control which he exercises *ab ante* on the issue of money from the Exchequer, and for his subsequent control of details.

II. THE BANK AS THE OFFICE FOR THE MANAGEMENT OF THE PUBLIC DEBT.

We have shown that the position held by the Bank of England with regard to the management of the public debt has remained unaltered in essentials since 1750. At that time its permanent loans to the Government had

come to an end and, with the exception of the loan raised in 1816 and repaid within three years,[a] the Government has not made use of the Bank's resources since this date. The connection between the Government and the Bank developed much more actively with respect to temporary loans, for which application was regularly made to the Bank until about 1817 or 1819. After this time the short date loans were divided into those raised to cover a cash deficit, which were obtained always from the Bank in the manner provided by law, and the unfunded debt proper, in which the Bank might share when specially authorized to do so by Parliament. The acts of 1866 and 1877 already referred to, which transfer to the Bank the management of the debts, contain a clause by which the Bank is permanently authorized to make advances to the Government on treasury bills and exchequer bills or bonds, issued with the consent of Parliament.

The relations of the Bank to the various forms of public debt are then as follows: Since 1816 it has not been employed to raise a permanent funded debt out of its own resources. It is authorized to provide loans on the security of government bills of the form described. It invariably supplies the temporary advances required to equalize current expenditure with current receipts. Finally the entire public debt, whether it has a share therein or not, is entrusted to its management.

The function of management involves, in the case of the unfunded debt, the following activities:

On the order of the Treasury the Bank supplies the required number of treasury bills, and exchequer bills

[a] [This loan was not paid off till 1834.—H. S. F.]

and bonds, made out for the amounts demanded by the Treasury and marked with numbers showing the order of issue of the bills, and sees that each separate paper is signed by the comptroller and auditor-general. It has then to hand over the bills so prepared to the persons appointed by the Treasury for the purpose, and to transfer the sums they represent to the exchequer account. The payment of interest on the cashing of a bill is done without a special order from the Treasury on presentation of the interest coupons whose payment is due, or of bills or bonds, after the date of payment has been announced by the Treasury in the London Gazette. The sums needed for this are transferred by the Bank from the exchequer account at the same time as the money required for paying the interest on the funded debt.

The duties of the Bank as manager of the funded debt are tiresome, though very simple in principle.[a] As soon as a loan has been subscribed and the payments have been made, the chief cashier of the Bank issues a scrip certificate for each subscriber, giving his name, position, and residence. The name and amount given on this scrip are entered in a journal and copied from this into the ledger, which is arranged in alphabetical order. As soon as this is done the mere scrip certificate becomes stock—i. e., a freely transferable share in the public debt, which carries with it certain rights (a claim to interest, exemption from taxes, etc.). The purchase and sale of these stocks is managed through stockbrokers;

[a] These duties are expressly regulated by the National Debt act, 33 and 34 Vict., c. 71 (Aug. 9, 1870). A description of the whole procedure is given by Thomas Hankey, "The Principles of Banking," 2d ed., London, 1873, p. 78, *et seq.*

the necessary legal transfers of the shares from the seller to the buyer are managed by the Bank. The stockbroker sends to the Bank a transfer ticket, stating the names of the buyer and seller of the amount to be transferred.[a] This is checked at the Bank to make sure that the seller holds the given sum, and then the transfer to the buyer is entered in the transfer book. A duplicate of this list can be seen at the office of the National Debt Commission. A stock receipt corresponding to this entry is signed by the seller, who also signs the entry in the transfer book, and the former is given to the buyer. By the signature to the stock receipt the Bank is freed from liability toward the seller for the value disposed of, while by obtaining the same receipt the buyer secures a claim represented by the entry in the ledger. Such transfers may be either of the whole value entered to any one person, or of any portion, however small, of this value. The transfer, like all the transactions connected with the stocks (receipt of interest, repayment, etc.), can be made by power of attorney. Transfers on account of death, or as presents, etc., can be made without the help of stockbrokers. There is a separate office for the registration of provisions made by will and arrangements between living persons, where the discharge of the original owner and the transfer to the claimant takes place.

The Bank shall allow any holder of consols to have more than one, but at most four accounts in the same name, but each account must be distinguished by a

[a] These transfer tickets are kept, so that in case the ledgers were accidentally destroyed they could be re-compiled by means of the tickets and of the dividend books, which are also preserved, but in a different place.

number or some similar designation.[a] Trustee holdings are excluded.[b]

The name "stock" is applied both to the separate shares and to the whole loan, in so far as it carries with it a perpetual annuity. The stock is generally added to one of the already existing stocks bearing the same rate of interest.[c] The stocks now existing are: Two and one-half per cent consols, 2¾ per cent consols, 2½ per cent consols (16 Vict.), terminable annuities for life and terms of year, terminable annuities created by the National Debt Act, 1887, and the Finance Act 1899 (savings bank annuities and book debt annuities), sinking fund annuities. The interest falls due on January 5 and July 5. In order to make all preparations for the payment of the dividends the ledgers of the national debt are closed for transfers before the date of payment, but not for more than 37 days.[d] Any person who, on the day of closing, is entered in the books as a holder of stock is entitled to the half yearly interest falling due.[e] The method of paying the dividends is as follows: "The name of each proprietor is entered on a 'slip,' with the capital stock belonging to him, the half yearly interest, the amount to be deducted for income tax, and the net sum payable after the said duty has been deducted. These slips * * * are

[a] National Debt Act (51 Vict., c. 2) and Stockholders' Relief Act (55 Vict., c. 39).

[b] Trustee Act, 56 and 67 Vict., c. 53.

[c] 33 and 34 Vict., c. 72, I, p. 3. "Stock means the several capital or joint stocks of perpetual annuities * * * and includes any share or interest thereon respectively."

[d] [Since 1861 stock may be sold and transferred any day in the year, holidays excepted. Hankey, *loc cit.*, 3d ed., p. 91.—H. S. F.]

[e] Nat. Debt Act (Stockholders' Relief), 55 Vict., c. 39.

then printed, and eventually made up into volumes forming the dividend books."[a] The total stock on which dividend is to be paid and the total amount of the latter can be found by adding up the different columns. After the entries have been checked the dividend warrants are issued. These state the amount of stock and the portion of dividend due thereon. They also are printed, bound up together, and checked by the entries in the dividend books. The dividend books thus prepared are taken to the dividend room where the claimants of dividends or their representatives receive the dividend warrants on declaring their name and the amount of stock to which they lay claim. They must sign the dividend book and the warrant, their signature to which is certified by one of the bank clerks. The warrant is payable at once in the adjoining dividend pay office, or may be used as a negotiable instrument, since it is payable to bearer.[b]

The holders of stock may also have their dividend warrants sent by post; for this purpose they must send a signed request to the Bank, giving an address at some place in the United Kingdom, the Channel Islands, or the Isle of Man. The despatch of the warrant by the Bank, on the authority of such instruction, is regarded as equivalent to delivery, as is also a transfer to another bank.

The dividend warrants, as they are paid off from time to time and collected at the Bank, are registered in a special office, the check office, according to the numbers they bear. When these are compared with the warrants still outstanding in the dividend rooms the result gives

[a] Hankey, 3d ed., p. 82.

[b] 32 and 33 Vict., c. 104; 33 and 34 Vict., c. 71, p. 20 *et seq.*

the total dividend actually paid, still unclaimed, and drawn but not presented for payment. All money due as dividends which is not claimed within ten years is transferred to the account of the national debt commissioners[a] as well as the stocks on which it is due. But claims to it can still be made at any time. The unclaimed dividend office at the Bank examines such claims and is the only office at the Bank whose expenses are paid by the Government.[b] At the demand of the Treasury the National Debt Commissioners must pay into the exchequer from the account of unclaimed dividends such sums as may be desired up to £1,000,000. (4 Ed. VII, c. 7.)

The number of public debt accounts kept by the Bank is at present about a quarter of a million, but it naturally varies with the consolidation and repayment of the various stocks.

These variations are increased to no small extent by the possibility of procuring negotiable certificates instead of stock.[c] It is provided in Part V of 33 and 34 Vict., c. 71, that any holder of stock may obtain a stock certificate—i. e., a certificate of his claim to his stock or to a part of it—with coupons annexed entitling the bearer to the dividends on the stock or part of the stock. These certificates are issued for no sum less than £50 or a multiple of £50, and when issued are not made out to order.

[a] Since 56 Geo. III c. 60 (1816). Unclaimed interest at the Bank of England was first claimed as public property in 1790. In the case of the South Sea Company this was not done until 1844 (Cf. "Rep. Publ. Inc. and Exp.," 1869, II, p. 497).

[b] 52 Vict., c. 6.

[c] Their issue was first allowed by 26 Vict., c. 28.

Hence they entitle the bearer to the stock described in the certificate, but he can change them into a "nominal certificate" at any time by inserting a name in the prescribed place.[a] These certificates can be changed into stock at any time. Should the certificates be lost, the Bank, before issuing a duplicate, may require evidence of ownership and of the loss or destruction, the advertisement of the loss or destruction in two London daily papers, and the transfer of an equivalent sum of stock or the execution of a bond of indemnity, with guarantees; not more than a year must have passed since the loss. Six years after the transfer of stock or the execution of the indemnity the facts must be advertised again, and only after this can the stock be released and the indemnity canceled. (Stockholders' Relief Act, 53 Vict., c. 39.)

The sum paid by the Government to the Bank for the expenses connected with the management of the public debt has been regulated by various acts of Parliament during the nineteenth century and has been fixed at a definite rate in proportion to the amount of the debt. By 55 and 56 Vict., c. 48, the rate was fixed as follows: For the first £500,000,000 a yearly sum of £325 is paid; for each million in excess of the amount, £100 is paid. By 24 Vict., c. 3, it was ordered that annuities for terms of years should be reckoned at a capital sum and should be "valued at Fifteen Years Purchase, if originally granted for a Term of Fifty Years or under." The yearly sum of £4,000 "Towards the Expenses of the House," which had been paid since 1694, was discontinued as was also the

[a] The manner of issuing the certificates is regulated by the Finance Act of 1902. (2 Ed. VII, c. 7, s. 11.)

additional £1,579 paid on account of the transfer of South Sea debt.[a]

For the administration of the floating debt the Bank is paid as follows: £100 per million of exchequer bills and exchequer bonds and £200 per million of treasury bills.[b]

The rate of payment is calculated thus: The sum outstanding on the last day of the financial year, according to the computations of the Commissioners of the National Debt, forms the basis for reckoning the sum to be paid to the Bank.[c] In the case of treasury bills the reckoning is based on the maximum sum which has been outstanding at any period of the past financial year.[d]

Conclusion.

By a process of gradual evolution, lasting for almost two hundred years, England has arrived at a point where its public finances are inseparably united with those of the Bank, and the latter has taken its place as an indispensable part of the financial organization. At an early stage in this process it was demonstrated that a bank could be more usefully turned to account by the State than in raising irredeemable loans, issuing worth-

[a] The sums received by the Bank in consequence of this act amounted to £200,066 in 1862–63. Two years previously, in 1860, the Bank's expenses of management were £126,445, so that assuming them to be the same for 1862–63, it made a profit of £73,621. But since the Bank has to refund all the losses suffered by the public creditors through fraud, forgery, etc., its expenses are frequently much greater. For instance, in 1830 it had to pay £214,000 in consequence of a great fraud. The average yearly loss on this account was £7,000 between 1808 and 1862. ("Rep. Publ. Inc. and Exp.," 1869, II, p. 581.)

[b] A separate payment is made in case of a conversion.

[c] 56 Vict., c. 48.

[d] 6 Ed. VII, c. 10, and 7 Ed. VII, c. 20.

less paper, and other similar financial operations. Some countries have attempted in the course of the nineteenth century to imitate the system, indisputably a good one, on which English finances are managed. Its advantages for the Government are evident—a decreased cash balance, a simplified system of office organization, a speedy and cheap method of money transfers, etc. But to produce these advantages it is essential that the whole organization of the public money and not merely individual sums should be transferred to the Bank. The Bank must be used as the institution where public payments are actually made, not merely as a place through which money passes in the course of transfer from one public treasury to another. This mistake underlies, for example, the relations of the German Reichsbank to the German Empire and the Federal States. The latter are expressly restricted to the mere drawing of orders of transfer on the Reichsbank, and the position of the Imperial Central Treasury as a section of the Bank serves only to conceal the fact that the relation of the Empire to it is but little better. The Bank, by its splendid organization and its branches, would be specially suited to undertake the financial business of the Empire, but in actual fact the payments which it makes on behalf of the Imperial Government are very few, and it is chiefly employed as a connecting link between the independent public treasuries. Hence there is no question of employing the cash balance in Germany to the extent to which this is done in England. And it is this feature which constitutes the special merit of a complete union between the management of the public money and the Bank, as

this is exemplified in England. By the transference of the management of public money to the Bank of England, the whole of the Government's cash balance, in so far as this is not applied directly to the making of payments, has become available to supply credit facilities for the community. Moreover the cash which must be kept in hand for payments is much reduced, owing to the technical adjustment of the methods employed, which have come to resemble exactly the forms of exchange used in private transactions.

It is, indeed, remarkable that the English Government has made no provision for employing this surplus balance on its own account, but has resigned it entirely to the Bank. With the exception of the proposal, to which we have referred elsewhere, made by Burke in 1780, and which was not acted upon so far as is discoverable, it has apparently never been suggested that the State should reclaim the profit arising out of the cession of this balance. In this respect the method adopted in a similar case by another State, Belgium, shows a decided advance. According to the law of May 20, 1872, and the agreement of July 17, 1872, the National Bank, which acts as state banker, is bound to employ the sums available for the benefit of the State. All the regulations of English financial administration pass over in silence the very question which makes the entrance of the Bank into the service of public finance an important economic matter, viz, in what manner and to whose profit the State ought to employ its surplus balance. The advantages which consequently accrue to the Bank of England are in fact no small ones. It may, however, certainly be admitted

that the question who ought to obtain the advantage resulting from the application of banking methods, is a secondary consideration as compared with the indubitable profit which is obtained in any case by the trading community as a whole. In England this profit is of an importance not to be despised, even taking into account the magnitude of the English money market. Owing to the central position of the Bank of England in regard to the English banking system the public revenue is treated in the same way as the surplus cash which a private individual places in a bank, and the public payments pass through the same channels by which that surplus returns to its source. The importance of this union of private and public methods of payment can not be given in figures, for statistical data are lacking from which the saving in cash transactions could be reckoned; but we can obtain an idea of it by examining the process of public payments in general.

The revenue is collected by the collectors. They receive it for the most part not in cash, but in cheques.[a] They present these cheques to a bank and obtain instead a bill of exchange which is forwarded to the Commissioners for the collection and management of the inland revenue in London. The Commissioners send the bill to the Bank, where it is taken up. The Bank does not, however, as a rule, receive coin for the separate bills, since the transaction is usually with a bank belonging to the clearing house, and thus a process of "compensation" takes place in the well-known manner.

[a] All the demand notes for payment used by the collectors state the name of the Bank in favor of which cheques should be crossed.

The sum with which the bank is credited by the person upon whom the bill is drawn is at once placed by it to the credit of the account of the revenue department. The latter transfers it to the exchequer account. In this way the great reservoir of the revenue is filled. From thence the sums needed for the public services are transferred to the account of the paymaster-general. This is all accomplished without employing a single coin. The process of issue now begins. Bills of exchange on the Government are presented. They are made payable at the Bank. Whether the claimant receives coin or not makes no difference as far as the administration of the public finances is concerned. In any case the sum will be debited to the bill account. Probably, however, the person presenting the bill is some great banker who has business relations with the Bank of England. In most cases a process of compensation will be possible. On another occasion the paymaster-general may give cheques to the claimants. These cheques are crossed and will be sent by the possessors to their bankers who will credit them with the values thereof. Perhaps at the same time the possessor draws a cheque on these same assets, in order to pay a tax which has fallen due in the meanwhile, and the circular process begins anew. The bankers themselves, if they are country bankers with only a small business, have relations with the large banks. The cheques issued by the paymaster-general are deposited with these latter like all the others, i. e., they are transmitted to be placed to the credit of the possessor. But the great bankers take part as before in the process of compensation, in the center of which is

the Bank of England. In yet a third case the amount is transferred from the Exchequer account to that of the commissioners of loans for public works. This constitutes a loan to a company. If the latter has its headquarters in London it will also have a banker there; if in the provinces, an account will be opened for it at some country bank. The Bank of England will again transfer the amount in question to this bank by the method usual between bankers. When the Bank has to pay the interest on the national debt, the money is assigned to it by means of a book transfer. The payments made in coin by the Bank itself amount to but little. In by far the greater number of cases it need merely transfer the sums to the accounts of the bankers.

Two advantages are inherent in the system of having the public money managed by the Bank of England: Clearness and the avoidance of cash payments. The concentration of all transactions in the exchequer account allows not only the Government and the bank, but, by means of the weekly return, the public, to know the actual condition of the public assets. The fluctuations in the account afford a sure guide to the times of inflow and outflow of money, and both the bank and the open money market can confidently base their operations upon the experiences of previous years.

The avoidance of cash payments is of primary importance in a country like England, where payment by check has been so widely adopted and where the extensive operations of the money market rest upon a small reserve in the bank of issue. Although the monetary transactions of the Government do not constitute a large proportion of

the total English transactions, yet the withdrawal of even this small part of the total operations of the market would be intensely felt. The serious disturbances which have been repeatedly caused in the United States by the independent position of the Treasury show with sufficient clearness the important economic effects of a separation between the Government transactions and the money market under a system where check payments prevail. The safety of check payments demands a universal money market. Where private transactions are still largely carried out in gold or notes, the partial adoption of a cash system by the State is much less felt than under a system of deposit banking.

The Bank of England manages the public deposits in the same way as the other deposits intrusted to it: 60 to 70 per cent are lent out at bank rate, the rest is kept unemployed at the bank. The retention of even this proportion as a reserve is regarded by the market as the withdrawal of so much wealth and is resented; and during the last decade frequent complaints have been made of the method of administering the public deposits on two grounds, that of the importance of the unemployed reserve and that of the high rate charged for loans. The practice of the English bank of issue deprives the market of about a third of the deposits intrusted to it. This policy is felt much less in the case of the other deposits—which consist partly of deposits for other banks, cash balances, and assets temporarily not available, such as those of the Colonial Governments, and partly of fairly constant private deposits—than in the case of the public deposits, which are almost entirely withdrawn from the market to the

bank during the first two months of the year. The continuance of the autumn "dear money" over the end of the year and on to March is, not without justice, attributed to the accumulation at the bank during this period of the money collected in taxes. The retention of about a third of the money deposited seems, at any rate, to indicate too strict a business policy, and the demand that the public deposits should be more freely placed at the disposal of the market appears not without justification.

The high loan rate at which the bank advances money is also frequently the subject of severe criticism. The public money, so it is often argued on the open market, is placed at the disposal of the bank without any counter payment on its part, and although the expenses connected with the management of the public money are not inconsiderable, yet the Bank of England, by its connection with the State, secures freely the largest deposit account controlled by any English bank, without having to undergo any expenses in earning it; hence there is no justification for making the bank rate essentially higher on the average than the market rate.

The Continental Governments which have intrusted the management of their money to their banks of issue, have in some cases—Belgium—made regulations as to the disposal of the money deposited; in other cases—e. g., Belgium, Italy, and the Netherlands—reserved for themselves counter advantages. In England the Government has left the disposal of the surplus balance entirely in the hands of the bank, and except for the proposal referred to elsewhere, made by Burke in 1780, no suggestion can be discovered to claim any profit for

the State from the balances thus intrusted. An English financial authority has, on the other hand, pronounced before the American Commission on Banking, in favor of the investment of a portion of the deposits in bills, according to the Belgian plan,[1] but to this the prevailing opinion in the city objects on the ground that foreign bills are not always a perfect security for obtaining gold. The fact that no interest is paid on public deposits corresponds with the custom of London banking, according to which no interest is allowed on current accounts. The high rate of interest charged for loans is due, apart from purely monetary considerations, to the position of the bank; interest has to be provided on a heavy capitalization, there is no reserve capital, and the privilege of note issue has for a long time brought no advantage to the bank, but on the contrary has hindered it appreciably in its regular business.

The policy of centralizing the Government assets in London has contributed to an important extent toward the concentration of the transactions on the money market. In spite of the great wealth of provincial England, for more than a century no place except London has been able to produce a money market, and the ruling position of the capital in the matter of short date credit transactions has contributed greatly to the amalgamation of the country banks with London establishments and has considerably strengthened the tendency to a centralized system of deposit banking, which is an essential feature of English economic organization. The desire to secure the

[1] The English Banking System, National Monetary Commission, 61 Cong., 2d sess., Washington, 1910.

greatest possible fluidity of capital has led the Bank of England to favor loans on stock securities and the discount of short date bills, and thus to limit its loan transactions with regard to speculation in stocks and to genuine trading credit. This procedure arises, however, merely from the general business policy of the English bank of issue and is not directly connected with the management of the public money; the concentration of money at the bank would not necessarily postulate any local concentration of its capital.

According to Bargehot's opinion the English chancellor of the exchequer "created" the money market by his deposits; the management of public money was bound up with the banking system before check transactions superseded note payments. On the Continent the order of development was reversed; here the gradual transfer of the management of the money of private individuals to the banks created the money market and developed it to a point at which the complete transference of the Government operations is demanded, not only in order to save cash payments, but also to promote the security of the money market.

APPENDIX I.

The Statutory Basis of the Position of the Bank of England in the English Economic System.

(1) THE ACT ESTABLISHING THE BANK.

[5 and 6 Will. and Mary, c. 20.]

"An act for granting to their Majesties several Rates and Duties upon Tonnage on ships and vessels and upon beere ale and other liquors for securing certain recompences and advantages in the said act mentioned to such persons as shall voluntarily advance the sum of fifteen thousand pounds towards carrying on the war against france."

Sections I to XVII inclusive, with the customary prolixity of old English statutes, contain provisions relating to the duties imposed; their amount, methods of collection, duration, etc. Sections XXXIII to XLVII (the last) provide for the application of the money paid in to the purposes set forth in the act, contain general administrative enactments with regard to certain branches of the revenue and finally make provision for the raising of a life annuity in case the form of loan which is described in further detail in Sections XVIII to XXXII should not prove successful. The latter sections alone affect the Bank of England, and we reproduce them here, with all their wearisome repetitions, in order to give a complete account of the legal position of the Bank at its foundation.

" s. XIX. *And be it further enacted by the authority aforesaid,* That it shall and may be lawfull to and for their Majesties by commission under the Greate Seale of England to authorize and appointe any number of persons to take and receive all such voluntarily subscriptions as shall be made on or before the first day of August which shall be in the yeare of our Lord One thou-

sand six hundred ninety four by any person or persons Natives or Foreigners Bodies Politicke or Corporate for and towards the raiseing and paying into the Receipte of Exchequer the said sume of Twelve hundred thousand pounds and that the yearely sume of one hundred thousand pounds parte of the said yearely sume of one hundred and forty thousand pounds ariseing by and out of the said Duties and Impositions before mentioned shall be applied issued and directed and is hereby appropriated to the use and advantage of such person and persons Bodies Politicke and Corporate as shall make such voluntarily subscriptions and payments their Heires Successors or Assignes in the proportion hereafter mentioned . . . .

"XX. *And be it further enacted,* That it shall and may be lawfull to and for their Majesties by Letters Patents under the Greate Seale of England to limitt directe and appointe how and in what manner and proportions and under what rules and directions the said sume of Twelve hundred thousand pounds . . . and the said yearely sume of one hundred thousand pounds . . . and every or any parte or proportion thereof may be assigneable or transferable assigned or transferred to such person or persons only as shall freely and voluntarily accepte of the same and not otherwise and to incorporate all and every such Subscribers and Contributors their Heires Successors or Assigns to be one Body Corporate and Politick by the name of the Governor and Company of the Banke of England and by the same name of the Governor and Company of the Banke of England to have perpetuall succession and a Common Seale and that they and theire Successors by the name aforesaid shall be able and capable in Lawe to have purchase receive possesse enjoye and retaine to them and their Successors Lands Rents Tenements and Hereditaments of what kind nature or quality soever. And alsoe to sell grant demise alien or dispose of the same. And by the same name to sue and implead and be sued and implead answere and be answered in Courts of Record or any other place whatsoever and to doe and execute all and singular other matters and things by the name aforesaid, that to them shall or may appertain to do, subjecte neverthelesse to the proviso and condition of Redemption herein after mentioned.

"XXI. *Provided alwaies and it is hereby enacted,* That in case the whole sume of Twelve hundred thousand pounds . . . shall not be advanced and paid into the Receipte of Exchequer before the First day of January which shall be in the yeare of our Lord One thousand six hundred and ninety four that then the Subscribers and Contributors shall only have and receive so much and such parte and proportion to the said sume or sumes soe respectively paid and advanced as shall be after the rate of eight pounds per Centum per Annum. And that at any Time upon twelve months notice after the first day of August which shall be in the yeare of our Lord One thousand seven hundred and five upon repayment by Parliament of the said Sume of twelve hundred thousand pounds . . . or such parte thereof as shall be paid or advanced as aforesaid under the respective Subscribers and Contributors . . . and of all the arrears of the said yearely payments of One hundred thousand pounds . . . or such proportionable parte thereof according to the sume, which shall be paid and advanced as aforesaid then and from thenceforward the said yearely payments and every of them . . . and the said Corporation shall absolutely cease and determine any thing herein contained in any wise to the contrary notwithstanding."

XXII provides that the Treasury shall regulate the payment of the yearly income without further royal warrant and that the officers of the Exchequer shall issue it without fees.

"XXIII. *Provided alwaies and be it further enacted by the authority aforesaid,* That noe person or persons Boddyes Politicke or Corporate shall by themselves or any other person or persons in trust for him or them subscribe or cause to be subscribed for and towards the raiseing and paying the said sume of twelve hundred thousand pounds any sume or sumes of money exceeding the sume of twenty thousand pounds and that every such Subscribers shall at the time of such subscription pay or cause to be paid unto the Commissioners who shall be authorized and appointed for takeing and receiving subscriptions as aforesaid one full fourth parte of his or their respective subscriptions and in defaulte of such payments as aforesaid every such subscription shall be utterly void and null. And that the residue of the said subscriptions shall be paid into the Receipte

of theire Majesties Exchequer as theire Majesties shall directe before the said first day of January next. And in defaulte of such payments that then the forth parte first paid as aforesaid shall be forfeited to and for the benefit of theire Majesties theire Heires and Successors.

"XXIV. *Provided alsoe and be it enacted*, That it shall not be lawfull to or for any person or persons, Natives and Foreigners, Bodyes Corporate or Politicke at any time or times before the first day of July next ensueing to subscribe in his her or theire owne name or names or in any other name or names in trust for him her or them for or towards the raiseing and paying into the Receipte of the Exchequer the said sume of Twelve hundred thousand pounds . . . any sume or sumes exceeding in the whole the sume of Tenne thousand pounds; anything in this Act conteined to the contrary in any wise notwithstanding.

"XXV. *Provided alwaies and be it declared and enacted to be the true intent and meaneing of this Act*, That in case the whole sume of Twelve hundred thousand pounds or a moiety thereof be not subscribed on or before the First day of August One thousand six hundred ninety four as aforesaid, that then the powers and authorities in this Act for erecting a Corporation as aforesaid shall cease and determine anything herein conteined to the contrary notwithstanding. And in such case soe much of the said yearely sume of One hundred thousand pounds as shall belong to the said Subscribers according to the meaneing of this Act shall be transferrable and may be from time to time transferred by the respective persons, soe subscribing, advancing, and paying any parte of the said Twelve hundred thousand pounds into the Exchequer or their respective Heires, Successors or Assignes to any person or persons whatsoever by any writeing or writeings under the hand and seale of the person or persons transferring the same attested by two or more credible Witnesses and entered within Twenty dayes after the sealeing thereof in a Booke or Bookes to be for that purpose kept in the said Exchequer by theire Majesties Remembrancer for the time being (for the entering whereof nothing shall be paid) which entries the said Remembrancer is from time to time upon request directed to make; and such parte of the said yearely sume of One hundred thousand pounds as shall by this Act be

due to the said subscribers, shall not att any time or times hereafter be made use of or be a fund or security for or lyable or applyed to raise pay or secure any more further or other sume or sumes of money whatsoever save only such money as shall in pursuance of and according to the intent of this Act be advanced and paid into their Majesties Exchequer within the time by this Act limited for the same.

"XXVI. *And it is hereby enacted by the authority aforesaid,* That the said Corporation so to be made shall not borrow or give security by Bill, Bond, Covenant or Agreement under their Common Seale for any more further or other sum or sumes of money exceeding in the whole the sume of Twelve hundred thousand pounds, so that they shall not owe at any one time more then the said sume unless it be by Act of Parliament upon funds agreed in Parliament, and in such case only such further sumes as shall be soe directed and allowed to be borrowed by Parliament and for such time only until they shall be repaid such further sumes as they shall borrowe by such authority and if any more or further or other sumes of money shall be borrowed taken up lent or advanced under theire Common Seale or for payment of which any Bond Bill, Covenant or Agreement or other Writeing shall be made sealed or given under the Common Seale of the said Corporation soe to be made then and in such case all and every person or persons who shall be a member or members of the said Corporation, his and theire respective private and personall capacities be chargeable with and lyable in proportion to theire severall Shares and Subscriptions to the repayment of such moneys, which shall be soe borrowed taken up or lent with Interest for the same in such manner as if such Security had been a Security for payment of soe much money and Interest for the same sealed by such respective member or members of the said Corporation and delivered by him or them as theire respective Acts and Deedes in proportion to theire severall Shares or Subscriptions as aforesaid and that in every such case an Action of Debt shall and may be brought commenced prosecuted and mainetained in any of their Majesties Courts of Record att Westminster by the respective Creditor or Creditors, to whom any such security

under the Common Seale of the said Corporation shall be made or his or theire respective Executors or Administrators in proportion to theire respective Shares or Subscriptions as aforesaid and therein recover and have judgement for him or them in such and the like manner as if such security were respectively sealed by the respective person or persons, who shall be soe sued or his or theire respective Ancestor or Testator or Intestate and by his and them executed and delivered as his or theire respective Acts and Deedes any condition covenant or agreement to be made to the contrary thereof in any wise notwithstanding. And if any condition covenant or agreement shall be made to the contrary, the same shall be and is hereby declared to be void any thing herein contained or any Lawe or Usage to the contrary notwithstanding and in such Action or Actions soe to be brought noe Privilege Protection Essoign or Wager of Lawe nor any more then one Imparlance shall be allowed.

"XXVII. And to the intent that theire Majesties Subjects may not be oppressed by the said Corporation by theire monopolising or ingrosseing any sort of Goods, Wares or Merchandizes, Be it further declared and Enacted by the authority aforesaid, that the said Corporation to be made and created by this Act, shall not att any time dureing the continuance thereof deale or trade or permitt or suffer any person or persons whatsoever either in trust or for the benefitt of the same to deale or trade with any of the Stock moneyes or Effects of or in any wise belonging to the said Corporation in the buying or selling of any Goods, Wares or Merchandizes whatsoever and every person or persons who shall soe deale or trade or by whose orders or directions such Dealeings or Tradeing shall be made prosecuted or managed, shall forfeite for every such Dealeing or Tradeing and every such order and directions treble the valy of the Goods and Merchandize soe traded for to such person or persons who shall sue for the same by Action of Debt, Bill, Plaint or information in any of theire Majesties Courts of Record at Westminster wherein noe Essoigne, Protection nor other Privilege whatsoever nor any Injunction Order of restrainte nor Wager of Lawe shall be allowed nor any more than one Imparlance.

"XXVIII. Provided that nothing therein contained shall any wayes be construed to hinder the said corporation from dealing in bills of Exchange or in buying or Selling Bullion, Gold and Silver or in selling any goods, wares or merchandize whatsoever, which shall really and bona fide be left or deposited with the said corporation for money lent and advanced thereon and which shall not be redeemed at the time agreed on or within three months after or from selling such goods as shall or may be the produce of lands purchased by the said Corporation.

"XXVIX. *Provided alwayes and be it enacted by the authority aforesaid,* That all and every Bill or Bills obligatory and of creditt under the Seale of the said Corporation made or given to any person or persons shall and may by Indorsement thereon under the hand of such person or persons be assigneable and assigned to any person or persons who shall voluntarily accepte the same and soe by such Assignee toties quoties by indorsement thereupon and that such Assignment and Assignements soe to be made, shall absolutely vest and transferre the Right and Property in and unto such Bill or Bills Obligatory and of Creditt and the moneys due upon the same and that the Assignee or Assignees shall and may sue for and maintaine an action thereupon in his owne name.

"XXX. *Provided alwaies and it is hereby further enacted,* That if the Governor, Deputy Governor, the Director, Managers, Assistants or other Members of the said Corporation so to be established shall upon the account of the said Corporation at any time or times purchase any lands or revenues belonging to the Crowne or advance or lend to their Majesties, theire Heires or Successors any sume or sumes of money by way of Loan or Anticipation on any parte or parts, branch or branches, fond or fonds of the Revenues now granted or belonging or hereafter to be granted or belonging to their Majesties, their Heires or Successors other than such fond or fonds, branch or branches of the said Revenues only on which a credit of loan is or shall be granted by Parliament that than the said Governor, Deputy Governor, Directors, Managers, Assistants or other Members of the said Corporation who shall consent agree to or approve of the advanceing or lending to theire Majesties, theire Heires or Successors such sume or

sumes of money as aforesaid such and each and every of them soe agreeing consenting approving and being thereof lawfully convicted, shall for every such offence forfeite treble the value of every such sume or sumes of money soe lent whereof one fifth parte shall be to the informer to be recovered in any of their Majesties Courts of Record at Westminster by action of Debt Bill Plainte or Information wherein no Protection Wager of Lawe, Essoign, Privilege of Parliament or other Privilege shall be allowed, nor any more than one Imparlance and the residue to be disposed of towards publicke uses as shall be directed by Parliament and not otherwise.

"XXXI. *Provided alwaies and be it enacted,* That all Amerciaments, Fynes and Issues against the said Corporation and theire Successors had charged or estreated in or upon account of any suites or actions to be prosecuted or brought against them shall not be pardoned acquitted or discharged by any Letters of Signet, Privy Seale or Greate Seale of theire Majesties, theire Heires or Successors or otherwise howsoever and in case any such Amerciaments Fynes or Issues shall be estreated into their Majesties Exchequer against the said Corporation upon any Processe for non-appeareance att the suite of any person or persons that then it shall and may be lawfull to and for the Officers of their Majesties Exchequer for the time being who are hereby directed to pay the said yearely sume of One hundred thousand pounds to the said Corporation to detaine soe much money as the said Amerciaments, Fynes or Issues shall amount unto out of the said yearly sume of One hundred thousand pounds payable to the said Corporation.

"XXXII. *And be it further enacted,* That if att any time hereafter any person or persons shall obtaine any Judgment or Judgments in any Court of Lawe against the said Corporation for any Debte or sume of money and shall bring execution or executions thereupon unto the said Officers of theire Majesties Exchequer, that then it shall and may be lawful to and for the said Officers of the said Exchequer, to pay and they are hereby required to pay the said sume or sumes of money in the said executions mentioned to the Plaintiffe or Plainetiffes therein named or theire Assignes whose Receipte shall be a sufficient discharge for the

same and that the said Officers of the Exchequer shall and may detain soe much of the said yearely sume of One hundred thousand pounds as the said Debt or Debts shall amount unto.

"XXXIII. . . . and whereas some Doubts may arise whether any Member or Members of Parliament may be concerned in the Corporation to be erected in pursuance of this Act be it therefore declared and enacted by the authority aforesaid, that it shall and may be lawfull to and for any Member or Members of the House of Commons to be a Member or Members of the said Corporation for the purposes in this Act mentioned anything in the recited Act conteined to the contrary in any wise notwithstanding."

(2) THE LATER ACTS.

Among the statutory enactments subsequent to 5 and 6 Will. and Mary, c. 20, it is only necessary to call attention to those which limited, improved, or in any way altered, the legal position of the Bank. Loan acts pure and simple and the merely formal acts which prolonged the Bank charter, and which were moreover generally combined with arrangements for loans, need not be referred to here. Among the former we need only notice those provisions which relate to the exclusive privileges of the Bank. Thus it is stated in 8 and 9 Will. III, c. 20, s. XXIX, 1697:

"*And be it further enacted*, That during the continuance of the Corporation of the governor & company of the bank of England no other Bank or any other corporation, society, fellowship, company or constitution, in the nature of a bank shall be erected or established, permitted, suffered, countenanced, or allowed by act of parliament within this kingdom."

This provision was further extended in 7 Anne, c. 7 (1708).

"That during the continuance of the said corporation of the governor and company of the bank of England, it shall not be lawfull for any body politic or corporate whatsoever, erected or to be erected (other than the said governor and company of the bank of England) or for any other persons whatsoever united or to be united in covenants or partnership, exceeding the number of six persons, in that part of Great Britain called England to borrow, owe or take up any sum or sums of money on their bills

or notes payable at demand, or at any less time than six months from the borrowing thereof."

And was again expressly repeated in 15 Geo. II, c. 13, s. 5, 1742:

"And to prevent any doubts, that may arise concerning the privilege or power given by former acts of Parliament to the said governor and company of exclusive banking, and also in regard to the erecting of any other bank or banks by parliament or restraining other persons from banking, during the continuance of the said privilege granted to the governor and company of the bank of England as before recited; it is hereby further enacted and declared by the authority aforesaid, That it is the true intent and meaning of this act, that no other bank shall be erected, established or allowed by Parliament and that it shall not be lawful for any body politik or corporate whatsoever, erected or to be erected, or for any other persons whatsoever, united or to be united in covenants or partnership, exceeding the number of six persons, in that part of Great Britain called England, to borrow, owe or take up any sum or sums of money on their bills or notes payable at demand, or at any less time than six months from the borrowing thereof, during the continuance of such said privilege to the said governor and company, who are hereby declared to be and remain a corporation with the privilege of exclusive banking as before recited. . . . "

Appendix II.

THE SETTLEMENT OF THE NATIONAL LAND BANK.

The settlement of the National Land Bank was drawn up on August 10, 1695, by the "trustees and managers" of the bank, elected by the subscribers of the land bank loan. The draft was made by two of them, Nicholas Barbon and John Asgill, and, by way of acknowledgment, £2,000 in bank stock was voted to the former and £3,000 to the latter. The statute is printed in Lord Somers's "Tracts," Vol. XI, as "The Settlement of the Land Bank," and its principal contents are as follows:

It was proposed to raise the credit of owners of land "by conveying the legal estates thereof unto trustees, and preserving and continuing the same in them; and dividing the values thereof into greater or lesser sums and making such values assignable and reassignable in register books * * * and giving power unto such trustees to issue out bills of charge on security of the said values."

The value of the lands conveyed to the trustees was to be divided into four parts. Three of these were called "The values of the register" and the fourth part "The equities of redemption." The values of the register were to be divided into sums of thousands, hundreds, fifties, etc., and each £100 of this value of the register was to be "esteemed and taken as a security for one hundred pounds principal money, and interest secured on the lands to which such values shall relate by books and numbers."

"When such conveyance shall be executed the auditor, for the time being (by warrant of the trustees and manager for the time being, in writing, and not otherwise), shall adjust the whole value of the lands so conveyed at such values thereof as shall be expressed in the said warrant, and shall sign such valuation in the margin of the said conveyance, and of the counter-

part thereof * * * which valuation shall be called 'the value of the auditor.'" The register was then to reduce this valuation to three-quarters. This reduced value was to be called "the value of the register," and was intended as "a limitation to the trustees and managers for the time being, to restrain them from lending monies, or issuing out bills of exchange on security of the said lands for any greater sum of money than such reduced values of the register"—i. e., than three quarters of the estimated value of the property.

The names of the owners of the properties, together with a statement of the value of the auditor, were then to be entered in a book in alphabetical order. The credit allowed by the Bank was then to be entered in a separate book called "the value ledger," in which a debit and credit account was to be opened for each owner and on the credit side an entry was to be made in the following form: "Cr. A. B. for ——— pounds value of the register, secured on the lands rents and estates entered in libro A. No. —."

The values of the register only amounted to three-quarters of the value of the auditor, and the remaining quarter formed the equity of redemption, so that the owner was credited with the latter in another book, the "purchase ledger," in the following form: "A. B. creditor for the equity of redemption of the lands rents and estates entered in libro A. No. —." Besides this there was yet another book, the "voucher book," for "transferring the credit of the said values and the right and title thereof." This formed an annex to the value ledger, and served especially for the registration of the documents by reason of which the value of the register with which the landowner was credited was gradually transferred into the hands of the Bank. Thus whenever a landowner took advantage of his credit to borrow a sum of money from the bank, he had to sign a warrant from the trustees to the register authorizing the latter to transfer to the Bank a portion of the value of the register equal to the sum borrowed. On repayment of the loan an equivalent amount was to be transferred back again.

The trustees and managers for their part had the right to borrow money on the security of the values of the register, but to amounts not exceeding the value of the advances made by

them. This borrowing was to be managed by the issue of bills in the following form:

"This bill, pursuant to the settlement of the Land Bank enrolled in Chancery anno dom. 1695, doth charge one hundred pounds value of the register secured upon the lands rents or estates entered in libro No. — and the stock of monies and funds of insurance annexed to the said Bank with payment of one hundred pounds and interest to A. B. By order of the trustees and managers of the Land Bank, established Anno Dom. 1695."

The bills were to be secured upon a definite estate only by book and number; but this reference was to be as effective as if the lands referred to were expressly named and described in the bill.

The equities of redemption were at the free disposal of the owner even should the values of the register be completely charged, but they were liable in the first instance for the credit which the owners might have received on these values of the register.

The trustees and managers could recall the loans at a year's notice. They must accept repayments at any time but for amounts not less than £100. The bills issued bore interest, the first payment of which fell due six months after issue. If payment was not demanded within thirty days after it was due, the bills ceased to bear interest until the day on which they were again presented. Should a property lose in value, the bills secured on it were to be redeemed. For this purpose the trustees and managers were to issue monthly announcements in which all pay offices were ordered to retain and pay off the bills (as described in detail). In this way also outstanding interest and capital were to be claimed. So long as the interest was paid regularly no debtor might be disturbed in his possession of the land. It was especially stated that each estate was chargeable only with the value secured on itself.

For the security of the bills issued the trustees and managers were to "lay out and employ ten shillings per annum, out of the interest of every one hundred pounds by them lent * * * to be a fund of insurance." This fund was in particular to be

charged with such bills as, having been for any cause whatever called in, had yet not been presented for payment. The notices calling in bills were to be published monthly for six months. Should the bill not be presented within six months after the last notice, the lands on which the bill was charged were to be freed and the bills were thenceforth to be charged on the funds of insurance. If the debtors of the Bank failed to pay interest or capital when due the trustees and managers might use the ordinary legal means to recover the debt.

The administration of the loans was organized as follows:

The trustees and managers, 21 in number, were to be selected each year on November 21. The election was to be by a majority of votes and each person who had £1,000 or more in the stock was to have 5 votes and no more; £500 to £1,000 entitled the holder to 3 votes, £300 to £500 to 2 votes, and £100 to £300 to 1 vote.

Anyone might be elected who had at least £1,000 in the stock. If the share of one of those elected should fall below £1,000 his office ceased *ipso facto*. Not more than 15 out of the trustees for the previous year might be re-elected.

The trustees were to make decisions by a majority of votes. They might, however, elect a committee to manage the current administration. The appointment of all the officers of the Bank was in their hands. No one might be auditor or register who did not hold at least £1,000 in stock. The income of the trustees and the yearly dividend were to be settled by the general assembly of the shareholders.

Appendix III.

THE PRESENT FORMS OF THE EXCHEQUER BILLS, TREASURY BILLS, AND EXCHEQUER BONDS.[a]

Exchequer bill.

[Stamp]: By virtue of an act 29 Vict. c. 25 I Dated the — day of ——	£1,000.	[Stamp]: By virtue of an act 29 Vict. c. 25 I Dated the — day of ——

This Exchequer Bill entitles[b] ——— or Order to claim payment of One Thousand pounds at the Bank of England out of the Consolidated Fund, at the expiration of any period of Twelve months, not later than five years from the date hereof.

Interest on this Bill will be paid half-yearly at the Bank of England, at such rate per centum per annum as shall be notified from time to time in the "London Gazette" by the Commissioners of Her Majesty's Treasury.

This Bill may be paid for the sum of One Thousand pounds, and interest accrued thereon, to the Receivers and Collectors in the United Kingdom, of any of the Public Revenues, Aids, Taxes, or Supplies, or to the account of Her Majesty's Exchequer at the Bank of England, at any time in the last six months of every year, commencing from the day of the date hereof, in which it shall have currency by law.

Signed in the presence of—

——— ———   ——— ———

Exchequer bill interest certificate.

No. 1. £1,000. 10.

[Act 29 Vict. cap. 25.]

This Coupon entitles the Bearer to Interest on the above sum for half year to ———

——— ———

Comptroller and Auditor General.

---

[a] According to the treasury minutes of March 9 (exchequer bills and bonds) and of March 16, 1867 (treasury bills).

[b] If the Blank is not filled up, this Bill will be paid to bearer.

[On the back of the bill.]

The holder of this bill, when intending to claim payment of the principal money at the expiration of any year, must give three days' previous notice and deposit the Bill (together with the Interest Coupons not due) at the Bank of England for verification.

(*Exchequer bond.*)

£100.

[Stamp]: A 1,000. Principal to be paid of at par ——— 18—. Per act— Vict. Reg. cap.— Interest at the rate of — per cent per ann. Dated at the —— on the —— 18—.

Exchequer bond.

This Bond entitles the Bearer to One Hundred Pounds, with the Interest due and payable thereon half-yearly, and the Principal Sum secured by this Bond, to be repaid out of such Moneys as shall be provided by Parliament in that behalf.

The several Sums in respect of Interest mentioned in the annexed Certificates are transferable by delivery of such respective Certificates, and will be payable to the persons producing and delivering the same at the Bank of England.

(*To be signed by the Comptroller and Auditor General.*)

——— ——— [EXCHEQUER SEAL.]

Signed in the presence of—

——— ———

N. B. The Cheques must not be cut off.

Interest certificate.

No. 1,000 A. £———

Interest certificate on exchequer bond per act — Vict. cap. — for £100.

This Certificate entitles the Bearer to ——— pound ——— shillings, Interest at £— per cent per ann., payable at the Bank of England, for half a year ending ——— 18—.

——— ———

Comptroller and Auditor General.

Treasury bill.

A. 0000.1.	*Due June 28, 1877.*	*A. 0000.1*
£——	By virtue of an Act 40 Vict. c. 2.	£——

LONDON, *March 28, 1877.*

This Treasury Bill entitles [a] ——— or order to payment of ——— pounds at the Bank of England out of the Consolidated Fund on the 28th June, 1877.

(Signed) ——— ———

Comptroller and Auditor General.

In presence of—

——— ———

[a] If this blank be not filled up, the Bill will be paid to bearer.

Appendix IV.

AVERAGE AMOUNT OF THE PUBLIC DEPOSITS AT THE BANK OF ENGLAND.

The report of the committee on renewing the bank charter, 1831, gives the average amounts of the public deposits at the Bank of England for the years 1807 to 1831, as follows:

[000 omitted.]

Year.	Amount.	Year.	Amount.
1807	£12,647	1820	£3,713
1808	11,761	1821	3,920
1809	11,093	1822	4,107
1810	11,950	1823	5,526
1811	10,191	1824	7,222
1812	10,390	1825	5,347
1813	10,393	1826	4,214
1814	12,158	1827	4,223
1815	11,737	1828	3,821
1816	10,807	1829	3,862
1817	8,699	1830	4,761
1818	7,066	1831	3,948
1819	4,538		
Total	133,430	Total	54,664

Average from 1807 to 1831, £7,523.

The following table refers to the last nineteen years. The estimates for the years 1869 to 1879 are taken from the *Economist*, December 13, 1879, No. 1894. The averages for the remaining years are based on the weekly returns of the Bank for that period, which returns are given in the corresponding numbers of the *Economist*:

[000 omitted.]

Year.	Amount.	Year.	Amount.
1864	£6,789	1873	£9,422
1865	6,556	1874	6,251
1866	5,290	1875	5,223
1867	6,423	1876	6,793
1868	4,856	1877	5,838
1869	5,129	1878	5,560
1870	7,635	1879	5,867
1871	7,071	1880	6,851
1872	8,875	1881	6,535
		1882	5,479
Total	58,624	Total	63,819

Average from 1864 to 1882, £6,444.

Since 1882 the development has been as follows:

[000 omitted.]

Year.	Amount.	Year.	Amount.
1883	£6,924	1897	£9,982
1884	7,288	1898	10,501
1885	6,196	1899	10,042
1886	4,983	1900	9,285
1887	5,377	1901	9,735
1888	6,443	1902	11,069
1889	7,179	1903	8,834
1890	5,840	1904	8,454
1891	6,610	1905	11,837
1892	5,856	1906	10,387
1893	5,697	1907	9,189
1894	6,969	1908	9,225
1895	7,601	1909	10,519
1896	10,418	1910	13,078
Total, 1883–1896	93,381	Total, 1897–1900	142,134

Average from 1883 to 1910 £8,412.

Appendix V.

BANK ACT, 1892.

[55 & 56 Vict. Ch. 48.]

CONTENTS.

CHAPTER 48.—An Act For making further Provision respecting certain Payments to the Banks of England and Ireland, and for other purposes connected with those Banks. [27th June 1892.]

BE it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:

1. There shall be paid to the Bank of England, during the period in this Act mentioned, as remuneration for the management of the National Debt inscribed in their books an annual sum calculated at the rate of three hundred and twenty-five pounds for every million pounds of such debt up to five hundred million pounds, and at the rate of one hundred pounds for every million pounds of such debt above the said five hundred million pounds: Provided that during the said period the said annual

sum shall not be less than one hundred and sixty thousand pounds.

2. There shall be paid to the Bank of Ireland, during the period in this Act mentioned, as remuneration for the management of the National Debt inscribed in their books an annual sum calculated at the rate of four hundred and twenty-five pounds for every million pounds, if such debt does not exceed thirty million pounds, and if it does exceed that sum, then at the rate of three hundred pounds for every million pounds of such debt: Provided that during the said period the said annual sum shall not be less than eight thousand pounds.

3. There shall be paid to the Bank of England, during the period in this Act mentioned, for the management in every financial year, of Exchequer bonds, Exchequer bills, and Treasury bills, an annual sum calculated at the rate, as respects Exchequer bonds and Exchequer bills, of one hundred pounds, and, as respects Treasury bills, of two hundred pounds, for every million pounds of bonds or bills outstanding on the last day of the previous financial year.

4.—(1.) The annual sums fixed by this Act for the management of the National Debt inscribed in the books of the Bank of England or Ireland and of Exchequer bonds, Exchequer bills, and Treasury bills shall be payable in respect of that management for every financial year up to and including the year ending the thirty-first day of March, one thousand nine hundred and twelve, and thereafter from year to year until Parliament otherwise directs.

(2.) The annual sums for the said management in any financial year shall be paid before the fifth day of July in the following financial year.

(3.) The National Debt Commissioners shall certify the amount of the unredeemed National Debt which on the last day of every financial year is inscribed in the books of the Bank of England and Bank of Ireland, respectively, and the annual sums or the management of the Debt in the following financial year shall be calculated on the amount so certified.

(4.) Such certificate shall state the nominal capital amount of all the unredeemed National Debt so inscribed, and shall state the

capital amount of every terminable annuity at fifteen years purchase thereof if originally created for a term exceeding fifty years, and at ten years purchase thereof if originally created for a term of fifty years or under.

(5.) The said annual sums shall continue to be payable out of the permanent annual charge for the National Debt.

(6.) For the purpose of calculating the said annual sums, the National Debt shall include the Local Loans stock and Guaranteed Land stock, but such proportion of those sums as is payable in respect of the management of the two last-mentioned stocks shall be paid to the Bank in the case of the Local Loans stock out of the Local Loans fund, and in the case of Guaranteed Land stock out of money provided by Parliament for the service of the Irish Land Commission.

5. Whereas the Bank of England and the Bank of Ireland respectively have consented to the annuity or interest on the debt to them from the public being reduced to the rate of two and three-quarters per cent per annum until the fifth day of April one thousand nine hundred and three; Be it therefore enacted as follows:

(1.) The annuity or interest payable as part of the permanent annual charge for the National Debt—

(*a*) in respect of the debt due from the public to the Bank of England, (which at the passing of this Act amounts to eleven million fifteen thousand and one hundred pounds); and

(*b*) in respect of the debt due from the public to the Bank of Ireland, (which at the passing of this Act amounts to two million six hundred and thirty thousand seven hundred and sixty-nine pounds four shillings and eightpence), shall be at the rate of two pounds fifteen shillings per cent per annum, until the fifth day of April, one thousand nine hundred and three, and after that day, at the rate of two pounds ten shillings per cent per annum: Provided that if the Bank concerned by notice in writing to the Treasury six months before the said day decline to accept such lower rate of interest, the debt to that Bank may be paid off without further notice, and until payment, the said annuity or interest shall continue to be payable at the rate of two pounds fifteen shillings per cent per annum.

(2.) The said annuity or interest shall be paid by equal quarterly payments on the fifth day of January, the fifth day of April, the fifth day of July, and the fifth day of October in each year.

6.—(1.) Where Bank of England notes issued more than forty years have not been presented for payment, the Bank of England may write off the amount, or any proportion of the amount of the said notes from the total amount of notes issued from the issue department, and the Bank Charter Act 1844 shall apply as if the amount of notes so written off had not been issued; Provided that—

(*a*) a return of the amount of notes so written off shall be forthwith sent to the Treasury and laid by them before Parliament; and

(*b*) this section shall not affect the liability of the Bank to pay any note included in the amount so written off, and if it is presented for payment the amount shall either be paid out of the bank notes, gold coin, or bullion, in the banking department, or, if it is exchanged for gold coin or bullion in the issue department, or for a note issued from the issue department, a corresponding amount of gold coin or bullion shall be transferred from the banking department and appropriated to the issue department.

(2.) This section shall be construed as one with the Bank Charter Act, 1844.

7.—(1.) It shall be lawful for Her Majesty the Queen to grant, and for the Bank of England to accept, a supplemental charter regulating the internal affairs of the corporation of the Bank of England, and if such charter is granted the Acts specified in Part III. of the schedule to this Act shall be repealed as from the date of such supplemental charter to the extent in the third column of that schedule mentioned.

(2.) Notwithstanding the repeal of any enactment by this Act the capital stock of the Bank of England as existing at the passing of this Act shall be subject to the enactments so far as unrepealed which relate to stock of the Bank of England, and the holders of the stock shall be members of the corporation of the Bank of England.

8.—(1.) This Act may be cited as the Bank Act, 1892.

(2.) This Act shall take effect as from the beginning of the current financial year.

(3.) The Acts set out in Parts I. and II. of the schedule to this Act are hereby repealed to the extent in the third column of that schedule mentioned.

Schedule of Enactments Repealed.

Part I.—*Enactments relating to the debt from the public to and the stock of the Bank of England.*

Session and chapter.	Title or short title.	Extent of repeal.
5 & 6 Will. & Mar. c. 20.	The Bank of England act, 1694....	Section 21; section 32; and section 34.
8 & 9 Will., 3. c. 20..	The Bank of England act, 1696...	Section 26, from "or for whom such subscriptions shall be made" down to "twentieth day of June be and," and from "at all times" down to "June;" section 32, down to "by virtue of the said recited act and;" and the words "from and after the completing the said subscriptions;" section 33 down to "ninety-seven;" section 37; section 47; section 48.
6 Anne, c. 59. (c. 32. in the old editions).	An act for regulating the qualifications of the elections of the governor, deputy governor, directors, and voters of the Governor and Company of the Bank of England.	The whole act.
7 Anne, c. 30. (c. 7. in the old editions).	The Bank of England act, 1708....	Preamble; sections 1 to 5, section 67 down to "persons, and that" and from "and the said allowances" down to "Governor and company," and from "allowances and" down to "governor and company as aforesaid;" section 68.

PART I.—*Enactments relating to the debt from the public to and the stock of the Bank of England*—Continued.

Session and chapter.	Title or short title.	Extent of repeal.
3 Geo. 1, c. 8	The Bank of England act, 1716,...	Section 45.
11 Geo. 1, c. 9.......	An act the title of which begins with the words "An act for continuing the several annuities," and ends with the words "redeemable by Parliament."	Preamble and sections 1 and 5.
1 Geo. 2, Stat. 2, c. 8	An act for granting an aid to His Majesty by sale of annuities to the Bank of England at £4 per centum redeemable by Parliament, and charged upon the duties on coals and culm.	Section 5.
2 Geo. 2, c. 3.........	An act for raising the sum of £1,250,000 by sale of annuities to the Bank of England after the rate of £4 per centum per annum, redeemable by Parliament, and for applying the produce of the sinking fund.	Do.
15 Geo. 2, c. 13......	An act for establishing an agreement with the Governor and Company of the Bank of England for advancing the sum of £1,600,000 toward the supply for the service of the year 1742.	Sections 6 and 7.
19 Geo. 2, c. 6.......	An act the title of which begins with the words "An act for establishing an agreement," and ends with the words "one thousand seven hundred and forty-six."	Section 3; section 5; section 8; sections 13 and 14.
23 Geo. 2, c. 1.......	An act for reducing the several annuities which now carry an interest after the rate of £4 per centum per annum to the several rates of interest therein mentioned.	The whole act, except section 8.
23 Geo. 2, c. 22......	An act for giving further time to the proprietors of annuities after the rate of £4 per centum per annum to subscribe the same in the manner and upon the terms therein mentioned, and for redeeming such of the said annuities as shall not be so subscribed.	The whole act, except sections 8 and 14.

PART I.—*Enactments relating to the debt from the public to and the stock of the Bank of England*—Continued.

Session and chapter.	Title or short title.	Extent of repeal.
56 Geo. 3, c. 96......	An act for establishing an agreement with the Governor and Company of the Bank of England, for advancing the sum of £3,000,000 for the service of the year 1816.	Section 3, down to "service as aforesaid," and from "making an encrease" to the end of the section; and section 5.
24 & 25 Vict., c. 3....	An act to make further provision respecting certain payments to and from the Bank of England, and to increase the facilities for the transfer of stocks and annuities, and for other purposes.	The whole act, except sections 4, 5, 9, and 10.
29 & 30 Vict., c. 25...	The exchequer bills and bonds act, 1866.	Section 29.
33 & 34 Vict., c. 71...	The national debt act, 1870......	Sections 40 and 64.
40 & 41 Vict., c. 2....	The treasury bills act, 1877......	Section 11 and section 12 from "The allowance" to the end of the section.
50 & 51 Vict., c. 16...	National debt and local loans act, 1887.	Section 18.
51 & 52 Vict., c. 2....	The national debt (conversion) act, 1888.	Section 31.
52 & 53 Vict., c. 4....	The national debt redemption act, 1889.	Section 17.

PART II.—*Enactments relating to the debt from the Public to the Bank of Ireland.*

28 & 29 Vict., c. 16...	An act to make further provision for the management of the unredeemed public debt in Ireland and for the reduction of the interest payable on certain sums advanced by the Bank of Ireland for the public service.	The whole act.

PART III.—*Enactments relating to internal affairs of Bank of England.*

Session and chapter.	Title or short title.	Extent of repeal.
8 & 9 Will. 3, c. 20...	The Bank of England act, 1696...	Section 34 from "within seven days" to the end of the section; section 52.
15 Geo. 2, c. 13......	An act for establishing an agreement with the Governor and Company of the Bank of England for advancing the sum of £1,600,000 toward the supply for the service of the year 1742.	Section 13.
24 Geo. 2, c. 4.......	An act for enabling the Bank of England to hold general courts and courts of directors in the manner therein directed	The whole act, so far as unrepealed.
7 Geo. 3, c. 48.......	An act for regulating the proceedings of certain public companies and corporations carrying on trade or dealings with joint stocks in respect to the declaring of dividends, and for further regulating the qualification of members for voting in their respective general courts.	The whole act, so far as it applies to the Bank of England.
35 & 36 Vict., c. 34...	The Bank of England (election of directors) act, 1872.	The whole act.

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And its Financial Services to the State

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